SARA VERONICA PARINI

LOVING THE POOR, SAVING THE RICH

Behavioural aspects and economic development of John Law's bank runs

IUSTITIAM COLIMUS

G. Giappichelli Editore

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VIA PO, 21 - TEL. 011-81.53.111 - FAX 011-81.25.100
http://www.giappichelli.it

ISBN/EAN 978-88-921-9445-8

L'opera è edita con il contributo dell'Università degli Studi di Milano ed è stata realizzata nell'ambito del progetto "Dipartimenti di Eccellenza", con particolare riferimento alla linea di ricerca:
– Develop effective, accountable and transparent institutions at all levels;
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Pubblicato nel mese di dicembre 2020
presso la G. Giappichelli Editore – Torino

A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain

(Mark Twain)

Al mio Maestro
Antonio Padoa Schioppa

CONTENTS

page

ACKNOWLEDGMENTS XI

INTRODUCTION 1

CHAPTER I 10
HOW WE GOT HERE 11

1. The whys and the wherefores 11
2. John Law: a fortunate gambler 16
3. What is value? The identification of conscious investment strategies 20
4. The money maker 28

CHAPTER II 36
QUO VADIMUS OR WHERE TO NEXT? 37

1. A proposal for the *Banque de Turin* 37
2. *Plano per lo stabilimento di una banca privata ed erezione di una compagnia di commercio* 52

CHAPTER III 58
THIS IS HOW IT HAPPENED 59

1. A new international order 59
2. A ‘financial revolution’ 63
3. Accountability: selling the illusion and retaining a percentage 71
4. The vanity fair 83

page

OVERVIEW AND CONCLUSION 91

REFERENCES 97

INDEX OF MAIN SOURCES 109
Archives 112
Libraries 113

INDEX OF NAMES 115

ACKNOWLEDGMENTS

This book is based on research conducted on the history and archives of John Law's memoires. I am grateful for a number of friends and colleagues in ecouraging me: to start the work, persevere with it, and finally to publish it. A special word of gratitude is due to prof.ssa Rossella Cerchia, who had read and commented on the third chapter. I am also grateful to dott.ssa Daniela Buccomino, for her patience and help. My deppest gratitude goes also to dott.ssa Francesca Tozzi, my special project editor, who took this book under her wing. Finally, I would like to acknowledge with gratitude, the support and the love of my family in this strong year – my husband Tommaso, my son Ludovico and my daughter Carlotta. They all kept me going and this book would not have been possible without them.

INTRODUCTION

If we dig deep into the history of the philosophy and the true principles of credit, we see that John Law understood the monetary question better than any other man of his time. Rather than limiting ourselves to highlighting his excesses, let us begin by challenging the stereotypes.

Though back then he was only ever talked about as a gambler[1], most of what we hear about him is in fact not completely true.

This does not mean that Mississippi mania was not a crisis. That is, if we understand a financial crisis[2] to be the sudden and unexpected deterioration of short-term interest rates, transferable securities, commercial insolvencies and all the other monetary and credit indicators. However, perhaps it was not just a financial crisis but also a social and cultural one.

Indeed, a multitude of small traders, farmers, shoe-polishers and butchers, attracted by rumours of increasing share prices, flocked to the Paris market; they were everyday people[3] who suddenly caused a rise

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[1] J. SAVARY, *Le parfait négociant: ou Instruction générale pour ce qui regarde le commerce des marchandises de France, & des pays étrangers*, Paris 1721, to. I, Part. II, p. 254; J. DUSAULX, *De la Passion du Jeu*, Paris 1779, Part I, pp. 81-83. The representation of John Law as a cheat and a gambler is limiting. This is only the surface of a much more complex character. It is true that Law gambled from time to time, like all gentlemen of his time. His preposterous bet of a thousand louis d'or with the Duke of Bourbon that there would be no more ice that winter or spring was in the middle of March 1719. This was a real gamble. Shortly before 7 April, in fact, the Duke had two carts of ice arrive from his ponds in Chantilly. Mr Law, in the meantime, had already sent him the thousand louis d'or. (Archivio di Stato di Torino, hereafter referred to as ASTo, *Philippo Donaudi al Marchese di Borgo*, Parigi 7 aprile 1719, *Lettere Ministri: Francia*, mazzo 147).

[2] P.M. GARBER, *Famous First Bubbles*, in *The Journal of Economic Perspectives* 4/2 (1990), pp. 35-54; ID., *Famous First Bubbles: The Fundamentals of Early Mania*s, Cambridge MA, 2000.

[3] A.E. MURPHY, *John Law: Economic Theorist and Policy-Maker*, Oxford

in prices and changed the nature of the market itself forever.

Thus, while Paris was sinking into speculative madness in the summer of 1719[4], the important point was that no one really asked themselves what the reason was for those amazing gains.

By as early as the winter of 1720, trading sessions had become informal meetings held in tearooms, bars and even in the middle of the *Rue Quicampoix*[5]: a euphoric display of a true and proper market of hope (futures) for the marvellous returns that could be gained from money coming from the colonies.

The increase in the value of shares in the Mississippi Company (*Compagnie du Mississippi*)[6] – payable in monthly instalments (debt/equity swaps) and convertible into government bonds – had fed the hope of an entire nation.

Law had thought up and then created a true and proper 'system'[7] (at

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1997, pp. 201-202, C. MACKAY, first published in 1841 under the title *Memoirs of Extraordinary Popular Delusions*, London, pp. 32-34.

[4] The precise date is 27 July 1719. Law had secured himself the exclusive right to do business between France and Louisiana. But things on the other side of the ocean were going very wrong. (P.A. COCHUT, *The Financier, Law: his Scheme and his time*, London 1856, Ch. VI, *The bandoliers of Mississippi*, p. 130).

[5] A. THIERS, *Histoire de Law*, Paris 1858, translated in en. F.S. FISKE, *The Mississippi Bubble: A Memoir of John Law*, New York 1859, recently in it. *La banca di John Law. Bolle speculative e default nella Francia del Settecento*, A. PALAZZI (transletd by), Roma 2013, pp. 68-84.

[6] The authorisation to set up the *Compagnie d'Occident*, known as the *Compagnie du Mississippi*, was granted in 1717, in exchange for the monopoly over the trade of the territory of French Louisiana for twenty-five years, according to the so-called practice of grafting. The following year Law transformed the *Banque Générale* in to *Royale*, a public institute guaranteed by the State. The *Compagnie du Mississippi* changed its name to *Compagnie des Indes*. PH. HAUDRERE-G. LE BOUËDEC, avec la participation de L. Mézin, *Les Compagnies des Indes*, Rennes 1999; PH. HAUDRERE, *Les compagnie français des Indes orientales: trois siècles de rencontre entre Orientaux et Occidentaux, 1600-1858*, Paris 2006; ID., *Les français dans l'océan Indien (XVIIe-XIXe siècle)*, Rennes 2014.

[7] See E. FAURE, *La Banqueroute de Law: 17 juillet 1720*, Paris 1977; T.E. KAISER, *Money, Despotism, and Public Opinion in Early. Eighteenth-Century France: John Law and the Debate on Royal Credit*, in *The Journal of Modern History*, 63/1 (Mar., 1991), pp. 1-28; MURPHY, *John Law: Economic Theorist and Policy-Maker*, cit.; F. VELDE, *Government Equity and Money: John Law's System in 1720 France*, Federal Reserve Bank of Chicago Working Paper 2003, pp. 2003-31; ID., *Government equity and money: John Law's system in 1720 France*, working paper and book chapter (2004); S. PARINI VINCENTI, *Mercato vs diritto: il caso John Law, financier*

least, that is what it has been called by everyone who has studied it)[8]. It envisaged the creation of a deposit and discount bank authorised to issue 'paper money'. The idea was to cover the French public debt created by Louis XIV through the issuance of paper money and the management of taxes on the one hand, and through the exploitation of trade with the 'East and West Indies' on the other hand[9].

The basic mindset of the Scottish economist was that the creation of a credit institution was an indispensable step towards the development of a new economic system.

Indeed, before shares, the market and trading could exist, there had to be a framework in place that was capable of supporting financial activities and of transforming an opportunity into reality. In truth, John Law preferred gambling[10] to going to church and mathematical models

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or gambler?, in *Rivista di storia del diritto italiano*, 88 (2015), pp. 203-226, spec. pp. 216-222; J. SHOVLIN, *Jealousy of Credit: John Law's "System" and the Geopolitics of Financial Revolution*, in *The Journal of Modern History*, 88 (2016), pp. 275-305.

[8] Nobody had a good word to say about the system. Dutot, Law's former colleague, took up his defence in vain. Hume, referring to Dutot, accuses him of frequently adducing facts and arguments of doubtful authenticity. Galiani calls the System «one the strangest productions of the human intelligence». As for Adam Smith, he does not even discuss Law's ideas but he calls the system «the most extravagant project both of banking and stock-jobbing that, perhaps, the world ever saw». For the texts see: F. GALIANI, *Della Moneta*, Napoli 1750, and R. PETRINI, *Controstoria della moneta*, Reggio Emilia 2014; A. SMITH, *Inquiry into the nature and causes of the wealth of nations* (edited w*ith an introduction by Kathryn Sutherland*, Oxford 1993). The nineteenth and twentieth centuries have at times been less critical of John Law. Certain passages written in a restrained and reasonable manner are quoted as expressing the real essence of Law's thoughts. It has also been said that he was an unrecognised forerunner, because certain bankers today have taken up some of his most well-known formulae (J.M. KEYNES, *A treatise on Money*, 2 vol., New York 1930 and FAURE, *La banqueroute de Law*, cit.).

[9] «Pour juger de l'effet du système sur le corp de l'Etat, il faut se rapeller l'extrémité où la finance étoit réduite à la mort du feu Roy. Le découragement des peuples, l'engourdissement du commerce, la négligence de la culture des terres, un amas enorme de dette, et qu'il ne fut proposé pour remède a tant de maux que des maux ancore plus grands, tel qu'une banqueroute générale et la persécution d'une chambre de justice» in J. LAW, *Historie des finances pendant la Régence*, *in Oeuvres complètes*, P. HARSIN (ed.) 3 vol., Paris 1934, III, pp. 282-430, cit., p. 396.

[10] Always attracted to gambling, Law found the Amsterdam Stock Exchange more seductive than any gambling hall. Law was interested in sellers who spread false rumours to lower VOC share prices and was interested in windhandels who traded shares they did not own. Law himself invented a system for guaranteeing lottery ticket holders against the exit of the zero.

and thus did not fit the mould of the social classes of the time: he was neither a nobleman nor a scientist.

In order to convince a large number of investors to buy shares issued by the Mississippi Company, the future Minister of the Treasury knew from the outset that, in addition to opening the doors of the *Banque Générale*, he had to do more: namely, he had to secure exclusive trading rights over the shares worldwide.

Thus, the bank was transformed in order to increase the volume of money in circulation and use the resulting liquidity to purchase and then finance the company's activities [11]. The company's value was to be supported by the growth in the money supply – for which Law himself, his reputation and his personal assets stood guarantors [12].

After all, the cornerstone of capitalism is the protection of private property, and the bank is its architrave, the fulcrum, the symbol of the pact between the saver and the credit institution – as explained so long ago in *Money and Trade* [13]. The promise that money deposited is forever safe – even if the bank fails – is an essential precondition to the agreement between the two. However, as we know, things took a very different path [14].

Law had lost control and inflation had taken over. On 21 May

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[11] Law's main financial innovations were the substitution of paper money and the conversion of fixed interest-bearing government debt into shares of the Mississippi Company. There was an inherent logic into to both operations in his desire to increase the circulation of money in France and to lower the interest costs on government debt. Law believed that he could drive the French economy towards greater prosperity and reduce the burden of Louis XIV's legacy. Law's vision was correct on both these fronts. But he failed.

[12] COCHUT, *The Financier Law: his Scheme and his time*, cit., Ch. V, *The Golden Age*, p. 90. At the start of the Company's operations, there were few investors prepared to risk their fortunes in this venture and Law's willingness to use his own wealth showed a courageous belief in the potential viability of his enterprises. The Gazette de la Régence warned of the imminent demise of the Mississippi Company. It said that the Mississippi affair would fail; it was obvious to create and maintain this type establishment through individual work with such weak measures and mediocre funds (*Gazette de la Régence*), Janvier 1715-Juin 1719, le Comte de Bathélemy, Paris 1887, trans.

[13] J. LAW, *Money and Trade Considered*, Edinburgh, the heirs and successors of A. Anderson, 1705.

[14] The good bank is the bank that does not pay. The banks that did not pay were 'good', it was thought, because, not giving credits, they always retained the funds deposited wuth them, and thus the depositors ran no risk.

1720 [15], his Majesty was persuaded to change course: the planned reduction of the value of the banknotes and shares was imposed. A total of 2.7 billion *livres* remained in circulation according to official estimates [16], 500 million of which had been issued without any supervision; there was thus nothing left for our banker to do but to revise taxes. This bubble [17] therefore presented a complex series of issues that led to its demise: the novelty of it all, the exoticism of the colonies, capitalism, immigration, the growth of urban society, and all the problems and excitement that these issues brought with them.

In 1720, the French, after having experienced money mania, also experienced the harsh warning that resulted from it. But the reasons for this warning have barely been explored and never explained in depth.

The first crash of the international stock market clearly demonstrated not only the irrational behaviour of the market players at the time but also the fragility and the difficulty of a financial system that, for the first time, was attempting to contain public debt [18].

The subject of the speculation, the forms of credit expansion and the episode that triggered the financial upheaval all differ in these initial centuries of crisis compared to current times. The cultural contexts and production methods have since changed, as have private consumption models and the sophistication of the financial system. However, these differences have little impact on the nature of their causes, as legal historians can easily demonstrate.

There are in fact many underlying parallels between the central bankers of the United States and Europe who ultimately responded to the

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[15] KAISER, *Money, Despotism, and Public Opinion in Early. Eighteenth-Century France: John Law and the Debate on Royal Credit*, cit., p. 16.

[16] The Treasury had a debt of 1,977,120,061 livres tournois in 1716 (*Recherches Historiques sur le Système de Law, État des finances à la mort de Louis XIV*, Paris 1854, Ch. I, pp. 1-14). For the financial institutions of this period see: M. and R. BONNEY, *Jean-Roland Malet, premier historien des finances de la monarchies française*, Paris 1993; P.T. HOFFMAN-G. POSTEL-VINAY, J.-L. ROSENTHAL, *Des marchés sans prix: une économie politique du crédit à Paris, 1660-1870*, Paris 2001; M. STOLL, *Servir le Rois Soleil: Cluade Lepeletier (1631-1711), Ministre de Louis XIV*, Rennes 2011 e N. BUAT, *John Law. La dette, ou comment s'en débarrasser*, Paris 2015, p. 60. Cfr., *infra*, Chap. III.

[17] *Arrest du Conseil d'Estat du Roy, concernant les Actions de la Compagnie des Indes du 21 mai 1720. Extrait des registres du Conseil d'Etat.*

[18] J. GLEESON, *The Moneymaker*, London 1999.

2008 financial crisis and John Law, who was deeply involved in financial innovation, the excesses of which produced the boom and collapse of the Mississippi Company.

Law had many of the characteristics of a 21st-century banker: a self-interested drive to get rich and to spend the proceeds of this personal enrichment on equity, real estate, gambling and art. But at the same time, he had also understood – just like his 21st-century counterparts – that regulation and the money supply are fundamental for the real economy: an economy in which we all go down on one boat, but in which we are each responsible for saving ourselves [19].

Thus, to understand how to separate each story from its external elements, we must look at the true origins of the *displacement* of the economic prospects that gave rise to new investment opportunities and gains (K. Kindleberger) [20].

An increase in credit causes the emergence of inexperienced operators on the market, who weaken the rationality of investors. Chance and euphoria in turn feed a 'mania'.

An overheating of the markets is caused by a scarcity of necessary cash as concerns both assets and possible price variations: indeed, it is

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[19] At the private banker level, John Law was a banking charlatan and a dangerous financial innovator. At the public level, he attempted to manipulate the financial markets. In this paper it will be argued that at one level it may be shown that Law had many of the characteristics of the twenty-first century banker in the form of a self- interested drive to enrich himself and to spend the proceeds of this personal enrichment in equities, real estate, futures, gambling and art. It can also be argued that Law was involved in financial innovation, the excesses of which produced the boom and collapse of the Mississippi Company. However, it will be argued that a new type of banker emerged from the ashes of the financial debacle. This new type understood that money matters and that money has a real effect on the economy. (A.E. MURPHY, *John Law: A Twenty-First Century Banker in the Eighteenth Century?*, in *Financial Innovation and Resilience. A Comparative Perspective on the Public Banks of Naples (1462-1808)*, L. COSTABILE-L. NEAL (eds.), *Palgrave Studies in History of Finance*, Basingstoke 2018, pp. 269-288).

[20] A bubble is often started by an exogenous major shock that Kindleberger calls *displacement*. The shock drives expectations toward over-optimism, speculators invest more than it would be rational to do and prices begin to rise. A displacement is a shock that «will alter the economic outlook by changing profit opportunities in at least one important sector of the economy. Displacement brings opportunity for profit in some new or existing lines, and closes others» (K. KINDLEBERGER, *Manias, Panics, and Crashes: A History of Financial Crises*, New York 1978, revised and enlarged 1989, p. 16).

possible to purchase options, or to purchase in instalments, and then to sell in advance and immediately cash in the earnings.

Gregarious behaviour is the best leverage [21]. Indeed, it was thanks to leverage – the mechanism used to pledge an amount as a guarantee in order to borrow a much higher amount – that the entire wealth of France was able to be pledged overnight to obtain a quantity of capital that was difficult to calculate without using astronomical mathematics. Huge amounts: an 'ocean' of liquidity suddenly hit the system in order to save it. Millions of people were to lose everything in this way: their homes, jobs – everything [22].

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[21] «Monkey see, monkey do», (KINDLEBERGER, *Manias, Panics, and Crashes:* cit., p. 19).

[22] In the *Lettres Persanes*, Montesquieu is bitterly ironic about Law's *Système*, which he hints about and transfigures the series of events in the narration of a metaphorical story. Hence, Law becomes the son of the god of the winds, Aeolus, who after escaping from the Orkney Islands (Scotland) goes to the kingdom of Betica (France), where he tries to get rich by taking advantage of the arts learnt from his father. Aeolus' son (Law) had become particularly good at controlling the winds and capturing them in wineskins, but in his country of birth this activity was not very lucrative and hence he decided to move to the kingdom of Betica, where we was able to practice his art profitably, even if he had to wait for the death of the King Saturn (Louis XIV), who previously had stood in the way of his project. Aeolus' son managed to convince the citizens of Betica that it was enough to use the winds trapped in the wineskins to make the country rich and hence put an end to the very serious difficulties of public debt (C.L. MONTESQUIEU, *Lettere persiane*, in *Tutte le opere [1721-1754]*, D. FELICE (curated by), Milano 2014, CXXXII [CXXXVIII], Rica a Ibben, a Smirne, p. 375). The new minister turned to the people of Betica saying, «Believe in me: leave the land of the base metals, come into the empire of the imagination, and I promise you riches that will astonish even you» (in Usbek & Rica, p. 395). For a period of time, the citizens of Betica were engrossed by the illusory promises of an imaginary richness, but soon their trust began to waiver, leading to the ruinous decline of the entire system. Imagination proved to not be enough to support the course of the "wind", which without an intrinsic value, returned to being replaced by metal coins. The son of Aeolus insisted to defend the theoretical assumptions of his project to the very end, without understanding that the problem was structural since only the goods with an intrinsic value, like precious metals, can be used as money (*ibidem*). Montesquieu briefly mentions the various measures that Law introduced in the desperate attempt to stabilise the monetary use of the wind (banknotes), like the prohibitions that he imposed on the export of precious metals, or the halving of the nominal value of shares and the sudden withdrawal of this latter measure. The French philosopher uses the metaphor of the "wind" to highlight the endemic "volatility" of systems based on chartalism that he believes are completely unsustainable, although not excluding a reduced usage of banknotes if they are firmly fixed to the intrinsic

France saved itself. But at what price?

In a short period of time, rational behaviour was replaced with a less prudent lucrative attitude, if not outright gambling. Suddenly, people who usually had no access to trading were involved in speculation. The hope for a quick profit took the place of all reason. When, finally, swindling and fraud came into play – which always come before a crisis – expectations were completely overturned. Not even the law could stop the avalanche.

Were we therefore facing a true financial revolution?

Perhaps not, but a moment of transition, yes.

Indeed, in an initial phase, we undoubtedly witnessed a different form of mobilisation of public debt resources – the burdensome legacy of Louis XIV [23] – through the establishment of the first national bank of issue, the *Banque Générale*. We also witnessed the senseless short sale of shares and the establishment of the Mississippi Company for the purpose of commercial exploitation: first limited to the American colonies, then extended globally as the Company of the Indies. On the other hand, the beginning of the second decade of the 18th century was marked dramatically by the bursting of the Mississippi Bubble (1720).

The tendency from a historiographic perspective is to highlight a certain discontinuity in financial processes, especially when speaking of crisis and revolution [24]. However, this book aims to put an emphasis on *continuity* with the past.

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value of metal coins. For the economic thinking of Montesquieu and his opinion of John Law, see M. BRAVI, *Montesquieu Economista*, in *Revue d'histoire moderne et contemporaine*, 18 (1971), pp. 321-353; C. LARRÈRE, *Montesquieu on Economics and Commerce*, in *Montesquieu's Science of Politics*, D. CARRITHERS-M. MOSHER-P. RAHE (eds.), Lanham 2001, pp. 335-375; J. MOORE, *Montesquieu and the Scottish Enlightenment*, in *Montesquieu and His Legacy*, R.E. KINGSTON (ed.), New York 2009, p. 184.

[23] On financial reform under Louis XIV, see G.B. MCCOLLIM, *The formation of fiscal policy in the Reign of Louis XIV: the example of Nicolas Desmaretz, controller general of finances (1708-1715)*, Ph.D. diss., Ohio State University, 1979; T.J. SCHAEPER, *The French Council of Commerce, 1700-1715: a Study of Mercantilism after Colbert*, Columbus 1983. Cfr. *infra*, Chap. I, note 9 and Chap. III.

[24] P. DICKSON, *The Financial Revolution in England: A study in Development of Public Credit 1688-1756*, London 1967; A.E. MURPHY, *The Origins of the English Financial markets. Investments and Speculations before the South Sea Bubble*, Cambridge 2009; C. WENNERLIND, *Casualties of Credit: The English Financial Revolution, 1620-1720*, Cambridge MA 2011.

In reality, in John Law's system, it is possible to find paradigms whose complexity reflects their ancient origin. This is why our interest must lie in looking at the origins of his financial process more than at its final, unfortunate outcome.

Furthermore, the use of sources – rare for this kind of work – will serve this purpose well: because in these pages priority will not be given to the typical tools of economic disciplines but rather to those of cultural history. Thus, quantitative data will not be presented; rather a textual analysis of economic thinking and archival sources will be carried out.

Law's life and his lightning-fast intuition are a tribute to his ability to tame risk and allocate credit in an increasingly efficient manner.

The construction of his 'system' is a 'beacon' of human vanity, made up of generous gains as well as huge failures, dictated at once by talent, arrogance, grandeur, dishonesty and greed.

In the end, the expansion and contraction of speculative bubbles is in fact not so much an indication of the shortcomings of a system as it is the firm result of our emotional instability. That said, the financial system undoubtedly accentuates differences between people, enriching those who are smart and lucky and impoverishing those who are less so. This is why, when our man confessed to having discovered the secret of the philosopher's stone to the Duke of Savoy in an attempt to entice him to establish the *Banque de Turin*, the latter refused, saying «I am not rich enough to ruin myself» [25].

And it is on this little-known episode, and others like it, that we will focus our analysis.

[25] For the *Memoriali piemontesi*, see Chap. 2.

CHAPTER I

HOW WE GOT HERE

SUMMARY: 1. The whys and the wherefores. – 2. John Law: a fortunate gambler. – 3. What is value? The identification of conscious investment strategies. – 4. The money maker.

1. THE WHYS AND THE WHEREFORES

The world of great economic theories is a world without coherence. In it move figures who preach doctrines of all kinds, convinced of the absolute truth of their theories – and not the least bit embarrassed when the winds change. These theories, based solely on considerations of a utilitarian nature and oriented around the search for abundance, often seem far removed from any ethical consideration, as do their authors. And Indeed, it is true that private finance has often passed on gains to individual assets and losses to (more or less) sovereign public debts. But it is equally true that some 'distorted' theories that history has attributed to certain authors are really only the result of a misunderstanding.

For Adam Smith [1], in fact, just as the motion of celestial bodies

[1] Adam Smith was a Scottish political economist and philosopher. The exact date of his birth is unknown. In 1759 he published his Theory of Moral Sentiments. At the end of 1763 Smith obtained a lucrative post as tutor to the young duke of Buccleuch. From 1764-66 he traveled with his pupil, mostly in France, where he came to know such intellectual leaders as Turgot, D'Alembert, André Morellet, Helvétius and, in particular, Francois Quesnay, the head of the Physiocratic school whose work he much respected. On returning home to Kirkcaldy he devoted much of the next ten years to his masterpiece, The *Wealth of Nations*, which appeared in 1776. The Wealth of Nations was the first and remains the most important book on the subject of political economy until this present day. On Smith and his economic

follows precise laws of nature, so does the economy. The economy follows its own laws, which determine its growth. On the contrary, when governments interfere by imposing market controls, they counteract the market's performance. Production suffers and the market becomes inefficient [2].

In Smith's view, speculators are rational operators. They pursue the goal of realizing wealth, while prices always – and only – reflect the intrinsic value of securities and commodities. In this context, there is no room for any form of irrationality or even speculative bubbles. The price should, on the one hand, reflect all available information about the commodity and, on the other hand, only fluctuate when new information is available [3].

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theories, see, for example, N. PHILLIPSON, *Adam Smith: An Enlightened Life*, London 2010; A. ARNON, *Monetary theory and Policy from Hume and Smith to Wicksell – Money, Credit and the Economy*, New York 2011; H.D. KURZ, *Adam Smith on markets, competition and violations of natural liberty*, in *Cambridge Journal of Economics*, 40/2 (2016), pp. 615-638; C. RIST, *History of Monetary and Credit Theory: From John Law to the Present Day*, *Adam Smith*, London 2016; J. NORMAN, *Adam Smith: What He Thought, and why it Matters*, London 2018; C. SMITH, *Adam Smith*, Cambridge 2020 and its bibliography.

[2] «If the market does not understand that the earnings growth tends to means revert, stock prices at the time of the equity issue are too high. If the market only gradually recognizes its mistakes the over-reaction to past earnings growth is corrected slowly in the future» (*An Enquiry into the nature and causes of the wealth of nations*, Ch. II, pp. 100-102). See G. JESURUM, *Note sulla teoria del valore nella Ricchezza delle nazioni di Adam Smith*, in *Prezzi relativi e distribuzione del reddito*, P. SYLOS LABINI (ed.), Torino 1973, pp. 29-46; J.A. SCHUMPETER, *Storia dell'analisi economica*, I, Torino 1990, p. 229; A. ZANINI, *Adam Smith: economia, morale, diritto*, Milano 1997, p. 216 ss. «The term "efficient" here does not mean what it normally means in economics—namely, that benefits minus costs are maximized. Instead, it means that prices of stocks rapidly incorporate information that is publicly available» (E.F. FAMA, *Random Walks in Stock Market Prices* in *Financial Analysts Journal*, Set-Oct, 21(1965), pp. 55-59; reprint. Jan-Feb. (1995), pp. 75-80) and again: «an efficient market generates categories of events that individually suggest that prices over-react to information» (ID., *Market Efficiency, Long-Term Returns, and Behavioral Finance*, in *Journal of Financial Economics* 49, Sept. n. 3 (1998), pp. 283-306).

[3] A. SMITH, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, cit., pp. 66 ff. On these chapter see JESURUM, *Note sulla teoria del valore nella Ricchezza delle nazioni di Adam Smith*, cit., pp. 29-46; J. DE BOYER DES ROCHES, *Adam Smith et la théorie quantitative de la monnaie*, in *Cahiers d'économie politique*, 8/13 (1986), pp. 47-71; SCHUMPETER, *Storia dell'analisi economica*, cit., p. 229; ZANINI, *Adam Smith: economia, morale, diritto*, cit., p. 216 ss.

In this 'calm' situation, the most aggressive speculators, are those willing to take the risk of a short sale or purchase. But this does not reflect reality, nor has it ever.

'Speculative cravings' turned out to be the result of society's tendency to succumb to collective exaltation [4].

In speculative investments – compared to other types of investment – the expected value is not based on meaningful statistical estimates but rather derives from purely subjective forecasts.

The illusion of speculation rests in the hope that stock prices or the real value of a good will grow infinitely as long as speculation remains 'innocent'. But speculation becomes 'diabolical' when it becomes the search for an indefinite number of buyers attracted by the mirage of irrational well-being [5].

Every action we perform in life is dictated by external stimuli. And contrary to popular belief, financial decisions do not necessarily have to do with money.

Indeed, they often have different motivations: anger, frustration, envy, pride, or other reasons.

From this point of view, John Law's macroeconomic experiment [6] – albeit characterized by some basic naivety and a very bad

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[4] J.K. GALBRAITH, *A short history of financial euphoria*, trad. it *Breve storia dell'euforia finanziaria*, Milano 1991; ID., *I rischi storici delle grandi speculazioni*, Milano 1991; E. CANCHELLOR, *Un Mondo di bolle. Le Speculazioni dalle origini alla new economy*, Roma 2000.

[5] Many were the satirical depictions of mass euphoria. See: MACKAY (*Memoirs of Extraordinary popular delusions and the madness of the crowds*, cit.). See also MONTESQUIEU *Lettres Persanes*, cit., lettre CXLII. Recently, M.C. RICE, *A fool and his money: culture and financial choice during the John Law affair of 1720*, Los Angeles 2007, p. 235.

[6] The Law's System remains a matter of scholarly controversy: some analysts have seen in Law's scheme a fundamentally flawed undertaking (H. LÜTHY, *La banque protestante en France de la révocation de l'édit de Nantes à la Révolution*, Paris 1959, to.I, Chap. III), while others have viewed it is a brilliant and essentially sound plan of reform that, despite its collapse, helped to free the French government from debt and to reinvigorate a sluggish French economy (P. HARSIN, *Le doctrines monétaires en France du XVI^e siècle au XVIII^e siècle*, Paris 1928; FAURE, *La Banqueroute de Law*, cit.). Adam Smith took an interest in John Law in *Lectures on Justice, Police, Revenues and Arms*, 1896, pp. 211-218. See more J. BUCHAN, *John Law A Scottish Adventurer of the Eighteenth Century*, London 2018.

epilogue – had important implications for the identification of monetary balance [7] and the supply and demand for gold.

And it has left us with a very topical lesson.

Although his name is often associated with failure, and although he was never truly forgiven of anything [8], it was thanks to Law that the French economy was able to emerge from its late-17th-century depression [9].

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[7] J.M. GALAVIELLE, *John Law premier gestionnaire de monnaie*, in *Banque*, 361 (1977) pp. 431-441; M.T. BOYER-XAMBEAU, *John Law, precurseur de Keynes et theoricien du circuit?*, in *Chaiers de Economie Politique*, n. 13 (1987), pp. 105-129; F. PIOLA CASELLI, *Il buon governo: storia della finanza pubblica nell'Europa preindustriale*, Torino 1997, p. 209; A.E. MURPHY, *John Law e la gestion de la dette publique*, in *La dette publique dans l'histoire* (sous dir. J. DE ANDREAU, G. BEAUR, J.-Y. GRENIER), Paris 2006, pp. 269-296; J. CARTELIER, *John Law's theory of money: an attempt at rehabilitation*, Actes de la conférence ESHET Annual Conference, Prague, 15-17 May 2008; A. VUITRY, *Le Désordre Des Finances Et Les Excès de la Spéculation À La Fin Du Règne de Louis XIV Et Au Commencement Du Règne de Louis XV*, Paris 2018.

[8] «John law was a controversial personality [...] acclaimed for his sharp mind and impressive arithmetical skills. But gambling usually does not need a coherent economic theory» (R. MUSETESCU, *Money and International trade: the perspectives of John Law and Richard Cantillon*, in *Romanian Economic and Business Review*, 4/7 (2012), pp. 45-61, spec. 45. Against Law we can see: R. CANTILLON (*infra*, nt. 34), GALIANI (*Della moneta*, cit.; PETRINI, *Controstoria della moneta*, cit.), D. HUME (*Of Public Credit*, in *Essays: Moral, Political, and Literary*, Indianapolis 1985; I. SIMPSON ROSS, *The emergence of David Hume as a political economist: a biographical sketch*, in C. WENNERLIND-M. SCHABAS (eds.), *David Hume's political economy*, New York 2008, p. 37, with many references), Adam Smith (*An Inquiry into the nature and causes of the wealth of nations*, cit.). For the 20th century we can briefly mention KEYNES, *A treatise on Money*, 2 voll., cit., e FAURE (*La banqueroute de Law*, cit.) which presents a political, economic and sociological history of Law's system.

[9] The wars of Louis XIV's later reign, which had placed greater and greater strains on the financial apparatus of many European states, prompted major transformations in the scale and methods of government finance, as regarded both taxation and public credit (L. MOUSNIER, *L'évolution des finances publiques en France et en Angleterre pendant les guerres de la Lihue d'Augsbourg et de la Succession d'Espagne*, in *Revue historique*, 205 (1951), pp. 1-23). For explanation of these sums, vd. F-E. LABROUSSE, *Histoire économique et sociale de la France*, to. II, Paris 1993, p. 275 («le bilan du règne de Louis XIV se traduit par un gonflement de la dette publique. Le passif financier se situe entre 2 300 et 2 400 millions de livres»); BUAT, *John Law. La dette, ou comment s'en débarrasser*, cit., p. 60; PARINI VINCENTI, *Mercato vs diritto*, cit., p. 216, nota 34.

And when 'assignats' (bonds substituting currency)[10] were issued during the French Revolution, true economic modernity began for France based on a system identical to that conceived by Law – though nobody bothered to rehabilitate him[11].

Undoubtedly, he was a man of twists and turns[12].

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[10] Assignats were paper money issued by the Constituent Assembly in France from 1789 to 1796, during the French Revolution, to address imminent bankruptcy. They were backed by the value of properties formerly held by the Catholic Church, which were confiscated, on the motion of Mirabeau, by the Assembly on 2 November 1789, and the crown lands, which had been taken over by the nation on 7 October. On the assignats, see F. AFTALION, *The French Revolution: An Economic Interpretation*, Cambridge 1990, p. 68 ss.; A.E. MURPHY, *John Law and the Assignats*, in *Pensée La économique*, Grenoble 1990, pp. 431-448; M. ALBERTONE, *Moneta e politica in Francia: dalla cassa di sconto agli assegnati* (1776-1772), Bologna 1992; F.H. CROUZET, *La grande inflation: La monnaie en France de Louis XVI à Napoléon*, Parigi 1993, pp. 97-98; E.S. BREZIS-F.H. CROUZET, *The role of assignats during the French Revolution: an evil or a rescuer*, in *Journal of European economic history* 24/1 (1995), pp. 1-7; G. ANTONIETTI, "*Da Louis a' l'Assignat?". D'or et d'argent: la monnaise en France du Moyen Agen. Ou la monnaie en France du Moyen Age à nous jours*, Comité pour l'Histoire economique et Financiaire de là France, Paris 2005, pp. 17-33; SHOVLIN, *Jealousy of Credit: John Law's "System" and the Geopolitics of Financial Revolution*, cit., pp. 275-305; J. GREENFIELD, *'As solid as and more precious than gold': Gabriel-Julien Ouvrard, John Law and the legacy of the assignats in nineteenth-century France*, in *French History* 34/2 (2020), pp. 191-212.

[11] MURPHY (*John Law: Economic Theorist and Policy-maker*, cit.) for life and works, D. DESSERT (*Argent, pouvoir et société au Grand Siècle*, Paris 1984) for society, VELDE (*Governement Equity and money: John Law's System in 1720* France, Chicago 2004) for the Systeme and Cartelier (see supra nt. 7) for monetary theory provided a very articulated picture of the character. Recently, see: R. SPANG, *The Ghost of Law: Speculating on Money, Memory and Mississippi in the French Constituent Assembly*, in *Historical Reflections*, 31, no. 1 (2005), pp. 3-25; V. LONGHITANO, *John Law teoria e pratica della Moneta*, Napoli 2018, in appendice *Considerazioni sulla Moneta e il Commercio*.

[12] John was born in 1671, perhaps on 21 April, or rather this is the date of his baptism. He attended Edimburgh high school and was orphaned at the age of 12.

On 25 September 1683 he inherited the Lauriston estate which his father had bought with a rich inheritance. At the age of 21 he left Edimburgh to move to London. For the life and the family of J. Law, see: W.H. AINSWORTH, *John Law: The projector*, t. 3, London 1864; F. ESPINASSE, *Law John*, in *Dictionary of National Biography*, XXXII, 1892, pp. 230-234; FAURE, *La Banqueroute de Law*, cit.; MURPHY, *John Law: Economic Theorist*, cit.; H. MONTGOMERY HYDE, *John Law the history of An Honest Adventurer*, London 1969, pp. 205-206 and now you can see other information in in BUCHAN, *John Law A Scottish Adventurer*, cit., *passim*.

But there is still much to discover about his financial projects.

2. JOHN LAW: A FORTUNATE GAMBLER

Though he went down in history as an adventurer, John Law – or as many called him, Las [13] – was undoubtedly an enigmatic man.

Murderer [14], gambler [15], 'Casanova' by instinct and cheat by profession [16], Law was, objectively speaking, endowed with mathematical intelligence and an uncommon speculative instinct.

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[13] It helped that its surname had many natural variants: Lawe, Laws and Lawes in England, Las, Lass, Lasse and Lavv in France, Laur in the United Province, Lau and Laus in Italy, Lauu and Labuu in Spain.

[14] It was a matter of gallantry that unleashed the storm. Edward Wilson was a fallen nobleman who led a very expensive life. On the morning of 9 April 1694 Law confronted him in a duel in Southampton Square. The reasons were never clarified. Perhaps the reason was Law's love affair with Wilson's sister. Law killed Wilson and was imprisoned in Newgate. When he was brought to Whitehall a month later to answer for the crime, no one thought he would be found guilty and sentenced to death. The duel was the capital event of John Law's life. In Spectator's words, he had joined the Duelists' Club with the right to sit at the high table, reserved for those who had killed their man. (The Spectator, No. 9, March 10, 1710 (i.e. 1711)). The Duke of Shrewsbury interceded for him and King William gave his unofficial approval, he did not want to be involved. It was at that moment that Law began to think about fleeing to France. A size 50 pounds was put on Law's head. The search notice was made so as not to allow identification and Law was called 'captain' (January 7th 1695).

[15] He was much in demand among princes and nobleman of first rank as in the most famous gaming club where his refined manners and even temper distinguished him from other gamesters (J.P. WOOD, *A Sketch of the Life and Projects of John Law of Lauriston, Controller general of the Finances of France*, Edimburgh 1791; ID., *Memoirs of the life of John Law of Lauriston, including a detailed account*, Edimburgh 1824, p. 16; S. MAGRÌ, *La strana vita di John Law*, Milano 1956, p. 18; BUCHAN, *A Scottish Adventurer of the Eighteenth Century*, cit.).

[16] For all his sweet manners he made enemies, and particularly Mr. D'Argenson. The Magistrate ordered him to leave Paris on the pretext that he was too expert in the game he had introduced into the capital. On leaving France, Law was in Genoa. – It was not until the earliest 1706 – (*Archives Nationale de Paris*, AN, $G^7$12 e *Archives des Affaires Étrangéres*, AAE, *Memoires et Documents: Angleterre*, 262, fols. 286-287 e B. MARMONT DU HAUTCHAMP, *Histoire du Système des Finances, Sous la Minorité de Louis XV*, *Pendant les Années 1719 et 1720*, t. 3, *Précédée d'un Abrégé de la Vie du Duc Regent, Et du Sr. Law*, Le Haye 1739, t. I, pp. 69-70).

He was loved and he was hated. He was a seducer and he was ambitious. When, at the tender age of 23, he was sentenced to death by the King's Bench for killing a London dandy, he seized the opportunity and fled as far away from Scotland as possible [17].

However, it is hard to reconstruct his travels [18].

Where did John go? By his own account, Law did not visit Italy before 1706 and was never in Austria. He certainly could not have traveled in France in wartime. We do know that Law visited Amsterdam and Venice [19].

He was familiar with the workings of the bank of Naples, and particularly with the workings of the banks of England and Scotland.

Twice in his life – between 1695 and 1701, and again in the early 1720s – John Law vanished. In the latter period he used fake names, and it is fair to presume he did so in the former period as well.

By 1697, when John was just 26 years old, it was clear he had managed to make the most of all his experiences. Friend and companion of nobility and royalty, he was a well-known presence at the green Faro tables [20].

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[17] In the late summer of 1704 Law petitioned Queen Anne for pardon both for «the death of the said John (sic) Wilson» and for breaking from prison. In left margin, Robert Harley, Secretary of State for Northern Department (which at time included Scotland) wrote: «September, 5, 1704, Rejected» (*The humble petition of John Law of the Kingdom of Scotland*, Gent in *Petitions to The Queen 1704.1708*); Harley Papers, Bl Add Ms, 70040.

[18] In wartime, it was high treason to travel abroad without passport signed by Secretary of State. There may have been a disguised John Law among the Dutch seamen. Nor does Law appear in the despatches of Matthew Prior, The English resident at The Hague. Law did make friends with officers serving in the Dutch Scots Brigade but that may have been after 1705. There is another source that places him in Paris at about this time, but it is not of the best (MARMONT DU HAUTCHAMP, *Histoire des Finances Sous la Minorité de Louis XV*, cit.).

[19] It was at that moment that Law began to think about fleeing. There are few sources for the next twenty years after the escape. We know, however, that he went around Europe. Law visited Amsterdam and Venice; he was familiar with the workings of the banks of Naples, and particularly with the workings of the bank of England and Scotland (THIERS, *Histoire de Law*, cit., p. 11).

[20] Faro, Pharaoh, Pharao, or Farobank is a late 17th-century French gambling card game. The earliest references to a card game named Pharaon (French for "Pharaoh") are found in Southwestern France during the reign of Louis XIV. Basset was outlawed in 1691, and Pharaoh emerged several years later as a derivative

As a 'wizard of lies', Law built himself a social reputation based on a house of cards [21].

In just a few years, he managed to become a companion to the rulers of half of Europe. A point of reference for many of them, he would end up attempting to rescue those rulers' states from bankruptcy as they became heavily indebted by the foolish policy of the *Ancien Régime* [22].

This is how our protagonist found himself with the enviable task of having to build a real financial system to revive the market and satisfy the full development of a profoundly changing economy [23].

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of Basset, before it too was outlawed. Players could be from three to ten, and depending on their number, two or three decks of 52 cards were played.

[21] He was the owner of the Hotel Nevers and the Mazarin Palace (whose facilities house the manuscripts of the National Library of Paris where his archives are kept), the Hotel de Soisson (where he later placed the *Banque Générale*), more than a third of Place Vendôme (then Place Louis le Grand), he took over the territories of 'half of America', accumulating a large liquid heritage. Using manuscripts in the *Archives Nationales*, Paris, along with Law's letters book for the years 1720-1722, located in the *Biblioteque Mejanes* in *Aix en Provence*, it is possible to reconstitute te extent of Law's real estate acquisitions. Table 1 details the country estates and parisians properties that Law acquired between 1718-1720. It lists the names of the sellers of the properties to Law with the subsequent prices of the properties when they were sold at public auctions after law's bankruptcy. From 1719 Law appears have a dual strategy of acquiring both large rural estate as well as properties inside Paris from 1719.

[22] «Pour juger de l'effet du système sur le corp de l'Etat, il faut sa rapeller l'extrémité où la finance étoit réduite à la mort de feu Roy. Le découragement des peuples, l'engourdissement du commerce, la négligence de la culture des terres, un amas enorme de dette, et qu' il ne fut proposé pour remède a tant de maux que des maux ancore plus grands, tel qu' une banqueroute génèrale et la persécution d'une chambre de justice» (L. LAW, *Histoire des finances pendant la Regence*, in *John Law. Oeuvres completes*, cit., III, pp. 282-430, p. 396. See more in D. BIEN, *Offices, Corps, and a System of State Credit: The uses of Privilege under the Ancien Regime*, in *The French Revolution and the Creation of Modern Political Culture*, K.M. BAKER (ed.), Oxford 1987, pp. 89-114; H.L. ROOT-D.E. INGBERMAN, *Tying the King's Hands: Credible Commitments and Royal Fiscal Policy During the Old Regime*, in *Rationality and Society* 1 (1989), pp. 240-258; KAISER, *Money, Despotism, and Public Opinion in Early Eighteenth-Century: John Law and the debate on Royal credit*, cit., pp. 1-28; J.J. HURT, *Louis XIV and the Parlements: The Assertion of Royal Authority*, Manchester-New York 2002, p. 212.

[23] A System that Thiers describes as «d'ingénieux et puissant, qui ramenait à un seul et unique crédit le crédit privé et public, et qui changeait toutes les liquidations lentes, pénibles et compliquées, soit des particuliers, soit de l'État, en une

At the beginning of the 18th century, nation states – increasingly competing with each other and short of mineral resources – were involved in what would be called the *guerre d'argent* [24].

Twenty years later, in the French capital, Law would become the most celebrated figure in Europe [25].

For his successes he would be named *Contrôleur général des finances* [26]. But just as the value of John Law's stock rose, so too would it precipitously fall.

His success was followed by a decline.

Law had evidently not considered the risk that a credit expansion without real savings coverage would create the conditions for inflation to return [27].

Over half a million French citizens would lose their capital thanks to him. And it would become a veritable global meltdown. Law would go from financial saviour to internationally renowned scoundrel.

But just as all that glitters is not always gold, judgement of John Law cannot be hastily dismissed based on this unfortunate and well-known epilogue.

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seule, laquelle devait se faire en monnaie métallique pour les sommes minimes, en monnaie de papier pour les sommes de quelque importance; qui multipliait les capitaux en simplifiant seulement la circulation, qui réduisait dès lors l'intérêt, et joignait enfin à l'introduction d'une monnaie abondante et commode la création de placements sûrs et avantageux» (*Histoire de Law*, cit., p. 26). A fairly recent discussion of Law's economic thinking can be read in A.E. MURPHY, *Canons of Monetary Orthodoxy and John Law*, in ID., *Contributions to the History of Economic Thought: Essay in honor of R.D.C. Black*, London 2000, pp. 294-317.

[24] DESSERT, *Argent, pouvoir et société au Grand Siècle*, cit.

[25] FAURE, *La banqueroute de Law*, cit.; GALAVIELLE, *John Law*, *premier gestionnaire de monnaie*, cit., pp. 431-441.

[26] «I have conceived the project of putting the France back on her feet» (*Law to Count Rosenberg*, London, May 15, 1722), in *Law's outletter book*, *Méjanes*, Ms 614 (355), f. 217.

[27] B. FOÀ, *L'espansione del credito*, in *Giornale degli Economisti e Rivista di Statistica*, Serie quarta, to.76/6 (1936), pp. 353-373; A. GAMBINO, *John Law: banchiere e scrittore*, in *Moneta e credito* 9.35 (1956), pp. 136-147; A. COVA, *Banchieri e banche nell'Europa moderna e contemporanea: Giovanni Antonio Zerbi e John Law*, in Associazione per lo sviluppo degli studi di banca e borsa, Università cattolica del Sacro Cuore, Facoltà di scienze bancarie, finanziarie e assicurative, Quaderno 34, in Ciclo di conferenze e seminari "*L'Uomo e il denaro*" Milano, 9 febbraio 2009, pp. 40-73.

The idea that full employment can be achieved through an abundant money supply and that the consequent low interest rate is what makes currency a public good are considerations [28] deserving of attention.

Just as Law's project for the House of Savoy – which would have allowed the small state to create a bank of Issue (*Banque de Turin*) that functioned also as a treasury and tax office – also deserves attention.

But let us proceed in order.

3. What is value? The identification of conscious investment strategies

Law's youthful years were spent in a feudal society with a rapidly changing production reality. It required freedom of markets and new ideas to make those markets work.

At that time, only a small amount of coinswere circulating and, moreover, they were of different weights and reputations. The problem was the amount of precious metal they contained. The life of a private banker was a dangerous one – always at risk of being sued for clipping coins (i.e., filing coins to reduce their weight) and/or for arbitrage (i.e., reselling gold on parallel markets) [29].

Currency was no longer a symbol of wealth but of commerce.

International trade became a source of conflict revolving around who could obtain the most currency. The idea of having recourse to a type of minting in which the material used does not cost as much as gold and silver stems from these issues.

Credit has existed in Europe since the 17th century [30].

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[28] Cartelier, *John Law's theory of money: an attempt at rehabilitation*, cit.

[29] A.E. Murphy, *John Law and Richard Cantillon on the circular flow of income*, in *The European Journal Of the History if Economic Thought* (1993), pp. 47-61; I. Franchini, *Principio economico e sovranità aziendale* (Doctoral dissertation, Università della Svizzera italiana), 2007, pp. 10, 50 ss.; Shovlin, *Jealousy of Credit: John Law's "System" and the Geopolitics of Financial Revolution*, cit.

[30] P.G.M. Dickson, *The financial Revolution in England. A study in the development of Public Credit*, cit.; A. De Maddalena, *Moneta e mercato nel '500: la*

But goldsmiths and banks were certainly not enough to solve the problem of adequate money creation, what with their limited scope and limited reserves.

The most virtuous example of those years was the Bank of Amsterdam, which built up a reputation for integrity by accepting deposits in all currencies, weighing them and issuing credit notes based on the value of the precious metal they contained [31].

The introduction of paper money led to a few improvements.

These banknotes – substantially different from the securities issued previously, which were simply certificates of deposits received – were issued for the first time by Stockholms Banco, which was founded in 1656 and became Sveriges Riksbank in 1668 [32].

But the first real issuing institution was established in 1694 in England: a public limited company called The Governor and Company of the Bank of England, with a share capital of £1,200,000 that was subscribed in order to grant a loan of equal amount to the state [33]. Nonetheless, a solution to the problem was still a long way off. Sveriges

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rivoluzione dei prezzi, Firenze 1973, L. DESMEDT, *Monnai, credit et balance du commerce chez le premiers mercantilistes anglais*, in *Storia del pensiero economico*, 39 (2000), pp. 91-117.

[31] L. NEAL, *The integration and efficiency of the London and Amsterdam stock markets in the eighteenth century*, in *Journal of Economic History* (1987), pp. 97-115; L. GILLARD, *La Banque d'Amsterdam et le Florin europeéen au Temps de la République néerlandaise (1610-1820)*, Paris 2004; S.F. QUINN-W. ROBERDS, *An Economic Explanation of the Early Bank of Amsterdam, Debasement, Bills of Exchange, and the Emergence of the First Central Bank*, in *Federal Reserve Bank of Atlanta*, Working Paper 2006, pp. 2006-2013; ID., *The Bank of Amsterdam and the leap to central bank money*, in *American Economic Review*, 97/2 (2007), pp. 262-265.

[32] D. DAVIDSON, *Sveriges Riksbank 1668-1918. I. Den Palmstruchska banken och Riksens Ständers bank under karolinska tiden. Af Sven Brisman*, in *Ekonomisk tidskrift* (1919), pp. 115-146; E.F. HECKSCHER, *The Bank of Sweden in its Connection with the Bank of Amsterdam*, in *History of the principal public banks* (1934), pp. 161-99; R. EDVINSSON, *Swedish monetary standards in a historical perspective*, in *Historical Monetary and Financial Statistics for Sweden: Exchange Rates, Prices, and Wages, (1277-2008)*, R. EDVINSSON-T. JACOBSON-D. WALDENSTRÖM (eds.), Stockholm 2010, pp. 26-66.

[33] A. ANDRÉADÉS, *Histoire de la Banque d'Anleterre*, in *History of the Bank of England*, A. ROUSSEAU (ed.), London 1909; J. CLAPHAM, *The Bank of England – A History*, London 1944; J.L. BROZ-R.S. GROSSMAN, *Paying for privilege: the political economy of Bank of England charters, 1694-1844*, in *Explorations in Economic History* 41/1 (2004), pp. 48-72; N. BENTEMESSEK-J. DE BOYER, *Financial*

Riksbank went bankrupt, and the English bank did not have a monopoly on the issuance of money.

Thus, while money had always led to problems, it was a lack of money that became a particularly difficult problem to deal with between the end of the 17th century and the beginning of the 18th century.

How could paper money be issued beyond the metal reserves held by banks?

How could it be ensured that paper money would be accepted at the same conditions as coins?

And how could public confidence in banknotes be generated if banknotes in themselves had no intrinsic value?

As in all times of crisis, philosophers and innovators were able to offer ready solutions.

Among those to present plans [34], John Law stood out [35].

Scottish by origin but naturalized French, Law proposed a complex, elaborate financial plan over the course of just a few years (first with his *Essay on a land bank* [36] and then with *Money and Trade Considered: With a Proposal for Supplying the Nation with Money*) that

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institutions and liquidity of public debt in England [1694 – 1720], in *History of Economics Society 37th Annual Conference*, June 25-28, 2010, Syracuse University, USA, 2010.

[34] J. BRISCOE, *A discourse on the late funds of the Million-act, and Bank of England shewing that they are injurious to the nobility and gentry, and ruinous to the trade of the nation*, 1694, paperback 2010; J. ASGILL, *Several Assertions Proved in order to create another species of money than gold and silver*, 1696, paperback 2010; H. CHAMBERLEN, *Papers Relating to a Bank of Credit Upon Land-security: Proposed to the Parliament of Scotland*, Edinburgh 1693 (on this author see J. ROBERTSON, *The case for the Enlightenment: Scotland and Naples 1680-1760*, Cambridge 2005, p. 147).

[35] RIST, *History of Monetary and Credit Theory, from John Law to the Present Day*, cit.; J. BERDELL, *La structure et la stabilité des premières propositions de banque foncière chez John Law*, in *Œconomia* [En ligne], 7-4 (2017), pp. 459-479.

[36] *John Law's Essay on a land bank* (1703-1704), ed. A.E. MURPHY, London 1994. To see manuscript: P. WEGEN, *John Law's Essay on a Land Bank*, University of Sidney, Department of Economics, Sidney 2006, pp. 108-109, http://www.hetsa.org.au/ pdf-back/22-RA-1.pdf. *Money and Trade Considered: With a Proposal for Supplying the Nation with Money* is an early economics text written by John Law of Lauriston, published in 1705. In it, he attempts to compare the prosperity of other countries with that of Scotland, and advocates a "land bank" system of paper money backed by real estate as a commodity instead of gold or silver.

satisfied and responded to all the problems on the table[37].

In Law's thought, money played an active role in the system, and indeed he distinguished between a barter and a money economy [38]. He was determined to show the importance of the money-in-advance requirement and the role of money in promoting a manufacturing sector.

To Law, the precious metal of which coins were made limited the circulation of money to a quantity that was insufficient to satisfy the economy's full development.

People spend money to provide for their needs or to fulfill their wishes. But people's needs and wishes are never-ending; so how could the scarce precious metal available be enough to act as an instrument of exchange for economic development?

That was another problem.

Silver – besides the five requirements that made it suitable as currency – had serious problems [39].

Silver was expensive, especially for countries without mines or colonies. And it was unstable.

In the last 200 years – according to Law – silver had been more abundant than demand.

And because the value of goods did not derive from need but rather from the relationship between their quantity and demand, silver's value had proved unstable.

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[37] *Money and Trade Considered: With a Proposal for Supplying the Nation with Money* is an early economics text written by John Law of Lauriston, published in 1705 (further information, see nt. 50). In it, he attempts to compare the prosperity of other countries with that of Scotland, and advocates a "land bank" system of paper money backed by real estate as a commodity instead of gold or silver. Cfr. L. LUGLI, *Economia Monetaria ed Economia Creditizia*, in *Giornale Degli Economisti e Annali Di Economia*, Nuova Serie, 1, no. 7/8 (1939), pp. 639-641.

[38] «The paper-money proposed will be equal in value to silver, for it will have a value of land pledged equal to the same sum of silver-money that it is given out for. If any losses should happen, one 4th of the revenue of the commission, will in all appearance be more than sufficient to make them good […]. This paper-money will not fall in value as silver-money has fallen, or may fall: goods or money fall in value, if the[y] increase in quantity, or if the demand lessens. But the commission giving out what sums are demanded, and taking back what sums are offered to be returned; this paper-money will be keep [sic.] its value, and there will always be as much money as there is occasion, or employment for, and no more», in *Money and trade*, cit., Chap, VII, pp. 166-167.

[39] N.F. DUPRE DE SAINT-MAUR, *Essai sur le monnaies ou Reflexions sur le rapport entre l'argent et les denrées*, Paris 1746.

Indeed, at the time Law was writing, the same amount of silver that before could buy a plot land could now only buy no more than 1/57 [40].

Therefore, coinage was needed that was somehow detached from the precious metal of which it was made and anchored to another good.

There was an insufficient supply of silver money in Scotland at the time Law was writing. To supplement the inadequate Scottish money supply, Law recommended establishing a land bank that would issue banknotes against collateral in the form of land.

Thus, in Law's opinion, a 'paper money' solution was better because it had greater agility and higher security, and it could be spent.

However, paper money still failed to fully capture the public's confidence.

As was the case at the gaming tables, Law understood that the survival of any financial system based on paper credit depended on credibility.

In the absence of credible rules, potential buyers tend to incorporate risk into the asset's value and thus reduce the price they are willing to pay.

A different asset would therefore have to be identified.

Every product used to replace gold, however, had presented problems over the years. Any merchandise chosen as currency had seen its value in use increase and, naturally, so too did demand for it.

The problem, therefore, had not been solved. There were two ways to go according to John Law.

First of all: *The Bank buys land*.

Law thus identified 'land notes' as the solution, as they would not be subject to the devaluation of precious metals, nor to transport risks [41].

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[40] «The 3d. of November 1554, by an act of the town-council of Edinburgh, the ounce of ſilver was ordered to be sold at 18 sh. and 8 pennies Scots; but these ačts do not mention the fineneſs the silver was of suppoſe the same number of pence had twice or 4 times the value of silver in them that they have now: then silver is only fallen to one tenth, or one fifth of the value it had to goods; and to one 28th, or one 14 of the value it had to land, but still money is fallen to one 20th of the value it had to goods, and to one 57th of the value it had to land», *Money and Trade*, Chap. V, pp. 126-127.

[41] *Essay on the land bank*, cit., p. 82.

The financial reform introduced by Law would allow many people to access credit with less risk. The market would be less vulnerable to shocks and all investors less susceptible to bankruptcy: «Land will in appearance rise in value being yet capable of improvements and as the demands the quantity being the same…» [42].

Though these are simple reflections, behind them lies a theoretical basis for innovative markets and economic development.

Indeed, economics was defining itself as a discipline separate from science. The object of its knowledge consisted of a series of data deriving from the empirical experience of stock exchanges. Stock exchanges were strange places where, through pure and simple betting, non-existent goods were constantly being created.

Illusion was in fact the basis of speculation.

Law, in these very early years – as can be seen in his first, unwise study – was far from the image that shines through in his unscrupulous system [43]. His *Essay on a land bank* is rife with limiting and stabilizing mechanisms that clearly betray a disinclination to trust the prudence of the bank's management. These mechanisms seek to prevent, or at least limit, bubbles in land prices. Noteholders are empowered with rights and opportunities to check excessive note issue and credit creation by the bank. Given the financial and political turmoil of the times in which it was written, the steadfastness with which the *Essay* focuses on the long term is significant.

The *Essay* is, in fact, a remarkably intellectual point of departure for Law's financial 'system'. This work constitutes Law's first proposal for financial innovation, and one must wonder whether this early work contains any conceptual germs that came to fruition in Law's grand reorganization of the French State. The two themes present are stability and limitation: money will be reliable and stable over time.

Law considers different constitutional designs for a land bank that would limit its activities in such a way that the stability of its notes would be seen as assured by the public. Land-backed money can hold its value over time.

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[42] *Essay on the land bank*, cit., p. 66.

[43] Law in *Essay on the land bank* is different from the unscrupulous Law of the French financial crisis. See J. CARTELIER-J. BERDELL, *La structure et la stabilité des premières propositions de banque foncière chez John Law*, in *Oeconomia*, 4-7 (2017), pp. 459-479.

At this point we must consult the *Essay* to grasp what Law meant to argue as he hurried to prepare another important work: *Money and Trade Considered*, written in 1705.

The *Essay* sets out two different ways a land bank might issue money. Either way might be privately or publicly owned. The first way is that «the Bank buys land»: the land bank owns land outright. Notes are issued to purchase land and only to purchase land. Notably, the criteria for identifying land that could be bought by the bank the 'land' standard) were not explained. The value of money rises against silver (by the value of money, Law often means its purchasing power against consumption goods); in the first way, land money increases in purchasing power.

That is, land-noteholders may purchase any parcel of land from the land bank's portfolio at the original land note price that the bank paid for it. Excessive note issue would increase the price of land (denominated in land notes). This would create an incentive to purchase land from the bank, though an inflationary cycle could easily ensue. However, if this came to pass, the bank would reduce the volume of land notes in circulation [44].

Although one can raise minor objections to the first solution under Law's land bank [45], it certainly appears to be adequately inoculated against inflationary cycles such as those created by assignats.

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[44] Law proposes creating a price system in which mirrors the value system of his great critic, Richard Cantillon (On this see more in: A.E. MURPHY, *Richard Cantillon: Entrepreneur and Economist*, New York Murphy, 1986; ID., *Richard Cantillon, le rival de Law*, Paris 1997; H. HIGGS, *The life and work of Richard Cantillon, in Essay on the Nature of Commerce in General*, London 2017, pp. 187-210. See more A.E. MURPHY, *The first financial market bubble: Perspectives from John Law and Richard Cantillon*, in *The Foundations of Political Economy and Social Reform*, London 2017, pp. 6-23; J. BERDELL-J.M. MENUDO, *Richard Cantillon's stabilizing market dynamics*, in *The European Journal of the History of Economic Thought* (2020), pp. 1-24). From a current perspective the fact that the law first proposal aims at stabilizing an asset price is particularly interesting as the creation of high powered money by central banks in the wake of 2007-2008 collapse has imparted little or no momentum of inflation in final goods prices but has been accompanied by a recovery and further extension of equity prices in the US as wells as a partial recovery of land prices.

[45] *Essay on the land bank*, pp. 67-75.

The second way proposed by Law is that «*The Bank buys Mortgages*» [46].

The land bank issues its notes against land «redeemable in a term of years» or against mortgages.

Therefore, this second way has two distinct variants: «A land money may be given out upon lands sold redeemable in a term of years, or upon lands mortgaged to repay the sum lent with the legal interest» [47].

We can see that with the first way of issuing notes, the value of money would rise against silver, while in the second the value of money would be stable against silver.

An interesting observation can therefore already be drawn from this reading of the market and the circulation of money within it.

Law regards the price of each type of money as its interest rate. The convertibility of land notes into interest-bearing securities or monies ensures that the land-money interest rate remains constant.

Here Law appears to take the interest rate on lending silver money as constant, presumably due to usury laws.

He is therefore close to acknowledging that the control over the money supply allows the targeting of interest rates.

In this way, with the first solution proposed in the *Essay*, land-backed currency increases its purchasing power, while with the second solution it shares the fate of silver's purchasing power.

Price is, in fact, an absolute concept, but value in trading is an absolutely relative concept. For this reason, Law focuses on the interest rate that is paid on silver money.

The idea is to maintain a constant exchange rate between land-backed and metal currency. The stability of the interest rate must also entail the stability of the purchasing power of money [48]. This can easily lead to mistakes [49]: one can end up applying a progressively lower rate if under strong inflationary pressure.

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[46] BERDELL, *The Structure and Stability of John Law's Early Land Bank Proposals*, cit., par. 3.2.

[47] *Essay on the land bank*, p. 75. In the former case the land Bank must hold the loan to maturity at the which time the borrower may pay off the loan, or if the borrower is unable to pay off the loan the bank sells the land.

[48] Law believes that the interest rate of the land remains constant.

[49] His idea that the stability of interest rates leads to a constant purchasing power of money can lead to an excessive fall in the cost of money.

This is exactly what happened in 1720, with a rate of 2%.

The overriding theme of *Money and Trade* is thus entirely absent from the *Essay*. There is no suggestion in the *Essay* that money can drive trade.

The Essay instead reflects Law's assumption that land-backed money would remain a subsidiary, or secondary, form of money that circulated alongside the «*dominant money that is used for rent payment*»: silver.

Law was evidently already working on a more complex financial scheme that subsequent trips to Europe, as we shall see, would better allow him to finish.

4. THE MONEY MAKER

While a fugitive from English justice, Law did not want his notoriety to stand in the way of his idea – to that end, he printed an essay in 1705 entitled *Money and Trade Considered: With a Proposal for Supplying the Nation with Money* [50].

In this short work, Law asks what money is and then suggests how to meet the needs of the Kingdom of Scotland. He proposes the issuance of paper money, secured not by deposits of silver (as was the case with the Bank of Scotland [51]) or the promises-to-pay of the King (as with the Bank of England) but by the direct and indirect source of all wealth at that time: land.

The idea of money backed by mortgages – always attractive to families with fields but with no cash – was not news, as mentioned above.

And now it is certain that Law sent *memoranda* on finance (*Essay on a land bank*, as A. Murphy noted in 1994) to the English minister Sidney Godolphin: the Lord High Treasurer and a member, with the

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[50] The treatise has been reprinted and is also available online (https://books. google.it/books/about/Money_and_Trade_Consiered.html?id=HGYzAQAAMAAJ&redir_esc=y). Recently it has also been published in Italian, LONGHITANO, *Teoria e pratica della moneta*, cit.

[51] S.C. CHECKLAND, *Scottish Banking: A History, 1695-1973*, Glasgow 1975.

Malboroughs, of the Queen's inner court since 1702 [52].

However, though it is true that he was re-proposing his old ideas as well as building off of ideas that others before him had already expressed, the project proposed in his new work was an opportunity to elaborate on his complex theory regarding income flow and money [53].

The concept of value is explained in the same terms as in the *Essay*.

He re-explains the diamond-water paradox [54] and criticizes the bartering system, which he calls «inconvenient and disadvantageous» [55]. Exchanges were difficult: it was rare to find someone who

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[52] Halifax to Stair, February 14, 1715, in J. MURRAY GRAHAM, *Annals and Correspondance of the Viscount of the First and Second Earls of Stair*, Edinburgh and London, 1875, I, p. 264.

[53] He was, no doubt embarrassed to be associated with an antiquated doctrine. As he wrote in 1722 (*Law to Philipp Joseph*, *Count Von Ursin Rosenberg*, London, March 16, 1722, in *Law's outletter book*, *Méjanes*, Ms 614 (355), f. 194).

[54] The paradox, already known to the ancient Greeks, had come down to him from a long scholastic tradition, but it will be necessary to wait for the development of the 'marginalist theory' of Carl Menger and his supporters, such as Jevons and Walras, to clarify the incidence of subjectivity on value. C. MENGER (*Grundsätze der Volkswirtschaftslehre*, Wien 1871, tr. by J. DIGWALL-B. HOSELITZ, *Principles of Economics*, New York 1871 and W.S. JEVONS, *The Theory of Political Economy*, 1871, e L. WALRAS, *pure ou la Thèorie de la richesse sociale*, Paris-Lausanne 1874) demonstrated that the full treatment of the issue is only possible in a context where the concept of marginal utility, on which the subjective theoria of value is based, is applicable. This law states that when we possess more than one unit of a given good, the marginal unit – i.e. the unit of the good that we do not consider indispensable to satisfy our needs – will be considered by us to be of lesser value than the other units of the same good that we already possess. The explanation is very simple: we assign the first unit of an asset to the most important use and therefore assign it a higher value. We never choose between all water and all diamonds, but only between the marginal unit of water and the marginal unit of diamonds. Adam Smith in The Wealth of Nations in 1776 identifies the question, but proposes a wrong solution according to John Law. Smith, in fact, tries to solve the problem by claiming that every good sold on the market has a value in use and an exchange value. From this point of view, a diamond has a low value of use and a high value of exchange; water, in contrast, has a high value of use and a low value of exchange. Smith therefore assumes that the exchange value of an object derives from the amount of work required to produce it.

[55] *Money and trade*, Chap. I, p. 4.

had a commodity of interest equal to the one you wanted to exchange, and artisans were few in number. The introduction of currency, however, reduced all these disadvantages.

From here, Law moves on to talk about trade: «Domestick Trade depends on the Money. A greater Quantity employes more People than lesser Quantity. A limited Sum can only set a number of People to Work proportion'd to it, and 'tis with little success Laws are made, for Employing the Poor or Idle in Countries where Money is scarce; good Laws many bring the Money to the full Circulation 'tis capable of, and force it to those Employments that are most profitable to the Country: But no Laws can make it go furder, nor can more People be set to Work, without more Money to circulate so, as to pay the Wages of a greater number» [56].

He wants to bring more money to the market to boost employment. The latter can lead to an increase in the demand for goods.

Adequate monetary circulation will raise wages and increase the balance of trade, allowing the poor «to live better and to bear a share in the Publick with the other People» [57].

The idea is to create a balance between money and rising demand in order to have a positive trade balance: «National Power and Wealth consists in numbers of People and Magazines of Home and Forreign goods. These depend on Trade, and Trade depends on Money. So to be Powerful and Wealthy in proportion to other Nations, we should have Money in proportion with them; money must be turned to the service of trade» [58].

The value of a country is determined by the value of its people: each man is worth 20 times his annual salary.

Trade balance parity is the forerunner of a fundamental concept: money is simply a means with no value in itself. In Law's words: «Money is not the value for which Goods are exchanged, but the

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[56] *Ibidem.* «This passage for in it Law was expressing some of his fundamentals beliefs namely that trade depends on money; there is some proportionate relationship between the amount of money in circulation and the number of people employed; money is required because it is used to pay the wages of the workforce», (MURPHY, *John Law and Richard Cantillon on the circular flow of income*, exp. p. 50).

[57] *Money and trade*, Chap. I, p. 16.

[58] *Money and trade*, Chap. III, pp. 59-60.

Value by which they are Exchanged [59].The use of Money is to buy Goods, and Silver while Money is of no other use».

This intuition comes directly from the gaming tables, where they use 'house tokens' that can be cashed in at the end of the evening. Indeed, Law used paper money as if it was gaming chip.

Money – he tells us – and value are two different things.

Theoretically, money cannot disappear (although it can, of course, be removed from circulation).

For instance, money earned by a worker, then gambled and 'lost' in a casino, simply becomes the property of the casino operator, who presumably puts it to some other use. Value can, however, vanish in the twinkling of an eye. Value can be created by taste, fancy, or belief in future events – it can manifest in someone's willingness to pay for an asset or one similar to it. Establishing value by referring to transactions in similar assets is an important concept in financial markets.

As we all know, what goes up at least sometimes comes down: an asset's value can be destroyed by a change in taste, fancy, or belief. This is precisely what happened when each of the historic financial bubbles deflated.

Thus, John Law stresses that assets have an intrinsic value that is determined by the greater or lesser quantity available in proportion to the quantity required.

Investors, however, do not act according to predictable patterns but rather only according to what needs must be met in a given moment:

Goods have a Value from the Uses they are apply'd to; And their Value is Greater or Lesser, not so much from their more or less valuable, or necessary Uses: As from the greater or lesser Quantity of them in proportion to the Demand for them [60].

The scarcity of an asset, therefore, directly affects its value, which does not depend on the value in use but rather on the intensity of demand in relation to the quantity of goods available to meet it.

The increase in the circulation of money with the establishment of a bank that is without limits of issue or range of action (chapter 7)

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[59] *Money and trade*, Chap. VII, pp. 82 e 84.

[60] *Money and trade*, Chap. I, p. 4.

and that is able to issue paper money – which guarantees a constant flow in the hands of investors – makes the whole process flourish. Indeed, widespread circulation – which must radiate from the center to the outer edges – keeps the entire market healthy and vital.

From this point of view, one of the most important passages in Law's work is in chapter 3, where he deals with adapting the quantity of money to the needs of the economy.

This problem evidently had no easy solution – and the men of government of the time, who had no financial knowledge, responded by adulterating the minting of coins while maintaining their nominal value.

It was common practice in the 18th-century market to save on the quantity and quality of metal in coinage while keeping its value unchanged.

The market responded by raising the prices of goods, varying exchange rates and discriminating between 'good' and 'bad' currencies [61].

Law, however, had seen the beneficial effects of the use of paper money as a means of payment in Italy, Sweden and the Netherlands [62]: «The use of Banks has been the best Method yet practis'd for the increase of Money. Banks have been long us'd in Italy, but as I'm informed the Invention of them was owing to Sweedland» [63].

Paper money had simplified financial transactions and reduced the circulation of coins [64]. Law thus thought that 'saving' was a flaw in the system.

Saving was the enemy of investors, the cause of distrust and, in the long run, also the cause of rising prices.

Law's aim was to move the confidence of operators in the desired

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[61] J.W. ANGELL, *The Theory of International Prices – History, Criticism and Restatement*, Cambridge 1926.

[62] See *supra*, nt. 23.

[63] *Money and trade*, Chap. III, p. 64.

[64] «This bank like that of Sweedland, is a secure place, where merchants may give in money, and have credit to trade with» (*Money and trade*, Chap. III, p. 65). Cfr. L. LANDE-T. CONGDON, *John Law and the Invention of Paper Money*, in *RSA Journal* 139, no. 5414 (1991), pp. 916-928.

direction and promote liquidity and loans [65]. Given that the idea had become established that a bank accepting deposits could also keep a fairly low amount of reserve coins, our ambitious financier was convinced that in order to operate in the market and produce capital gains, it was enough to found a bank.

The idea – which in a certain respect was the forerunner of today's quantitative easing – was that the issuance of money could be manipulated: create paper money and put it into the system.

If the banks had in fact printed the banknotes needed to give work to the people and developed the manufacturing sector, paper money would have kept its value and the prices of goods would not have risen.

Law showed he knew that the increase of the currency in circulation affected prices, but it was in the activation of work and in the breadth of trade that the economist and the banker saw the wealth and power of a country: «National Power and Wealth consists in numbers of People and Magazines of Home and Foreign goods. These depend on Trade, and Trade depends on Money. So to be Powerful and Wealthy in proportion to other Nations, we should have Money in proportion with them» [66].

The increase in the currency in circulation was reflected in prices.

The wealth of a nation did not consist – as almost everybody thought at the time – of holdings of rare and beautiful metals, but rather of the labor of its people and the fruits of the earth.

It is not the metal coin itself that has value.

Credit constitutes the effective resource of economic development [67].

Law never claimed that paper can replace metals as a pledge of currency. It can replace them as a material support, but behind it there must be a support that can guarantee them and justify their value.

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[65] J. DE BOYER DES ROCHES, *Bank liquidity risk: From John Law (1705) to Walter Bagehot (1873)*, in *The European Journal of the History of Economic Thought*, 20/4 (2013), pp. 547-571.

[66] *Money and trade*, Chap. V, p. 110.

[67] «Credit is not praticaple unless the credit can be used to purchase goods and services demanded by the employed workers- credit used in such a way becomes money», (MURPHY, *John Law and Richard Cantillon on the circular flow of income*, cit., p. 50).

Exchanges can have the most varied of reference points – the important thing is that coinage has no arbitrary value.

The *Money and Trade* project that he proposed to the Scottish Parliament was along these lines [68].

Unfortunately, the support of John and Archibald Campbell – the second Duke of Argyll [69] and the Duke of Ilay [70] – was not enough.

The project was not adopted. John Law drew his own conclusions from its failure. Law's landmint scheme was engulfed in the partisan animosities of the Scottish nobility and was never enacted.

At the end of 1705, or in early 1706, Law left his homeland – and there is no evidence he ever returned [71].

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[68] L. IOTTI, *Contribution a la théorie du monnayage: «Money and trad » de John Law*, in *Cahiers d'économie politique / Papers in Political Economy* (1990), pp. 63-79.

[69] John Campbell, 2nd Duke of Argyll, 1st Duke of Greenwich (1680 1743), was a Scottish nobleman and senior commander in the British Army. The son of the 1st Duke of Argyll (in the Scottish peerage), he actively furthered the union of England and Scotland and was created a peer of England (1705), with the titles Earl of Greenwich and Baron of Chatham. He served under the Duke of Marlborough from 1706 in the War of the Spanish Succession. He acted as commander in chief in Spain and as ambassador to the archduke Charles in 1711. As commander in chief of the forces in north Britain during the Jacobite rebellion of 1715, he managed with very little bloodshed to suppress the rising in Scotland. He held various offices and in 1736 was made a field marshal. He strenuously opposed in 1737 the bill to penalize the city of Edinburgh over the Porteous riots, and a violent speech against the government in April 1740 led again to his dismissal from office. Apart from one further short period of power, he spent the remainder of his life in retirement. See T. HEATHCOTE, *The British Field Marshals 1736-1997*, London 1999.

[70] Archibald Campbell, 3rd Duke of Argyll, 1st Earl of Ilay (1682 –1761) was a Scottish nobleman, politician, lawyer, businessman, and soldier. He was known as Lord Archibald Campbell from 1703 to 1706, and as the Earl of Ilay from 1706 until 1743, when he succeeded to the dukedom. He was the dominant political leader in Scotland in his day, and was involved in many civic projects. He was one of the founders of the Royal Bank of Scotland in 1727, and acted as the bank's first governor. Cfr. R. EMERSON, *An Enlightened Duke: The Life of Archibald Campbell (1682-1761), Earl of Ilay, 3rd Duke of Argyll*, London 2013.

[71] See. D. RUBINI, *Politics and the battle for the banks, 1688-1697*, in *The English historical review*, 85 (337), pp. 693-714; A.E. MURPHY, *John Law: Economic Theorist and Policy-maker*, Oxford 1997, pp. 50-51 e ROBERTSON, *The case of*

But Law reinforced the idea of paper money.

He had proposed an idea for Scotland – a land-based society, and a rather backward one at that. His direct experiences with banks allowed him to have a wider range of ideas at his disposal.

He explains this clearly in his *Mémoire pour prouver qu'une espèce de monnaye nouvelle peut être meilleure que l'or et l'argent* of 1707 [72].

Only in France had the new form of paper money run up against difficulty.

The country's public debt was so great because of the misguided ideas of writers who decided to deal with money, as Law had already shown to Chamillart in 1707-08, in which he has argued against Boissard and Locke [73].

Law thus points to the income of the State as another way of strengthening the value of currency, after land and shares in trading companies. This is how – he says – credit can be created immediately for a territory with-out large trading companies.

And this is how his fruitfull, but little-known project for Victor Amadeus II came to be.

Enlightenment: Scotland and Naples 1680-1760, cit., p. 173). See also, on the Scottish Parliament's discussion of and Law's proposal, L. NEAL, *I am not Master of events: the speculations of John law and Lord Londonderry in the Mississippi and South Sea Bubble*, New Haven 2012, p. 33.

[72] *Mémoire pour prouver qu'une espèce de monnaye nouvelle peut être meilleure que l'or et l'argent*, (*Memoria per una nuova specie di moneta*), published by HARSIN (*Oeuvres complètes*, pp. 195-214) deposited at *Archives Nationales* anonymous manuscript, 50 pp. «*le Mémoire est de M. Law*», (AN, G712). Also available in R. TRINTZIUS, *John Law et la naissance du dirigisme*, Parigi 1950, pp. 183-209. A complex writing, divided into four parts, it tries to capture Chamillart's attention, exposing with a particularly attentive eye to the French situation, the hypothesis of a currency and therefore of an issuing bank not only and no longer limited by its metal reserves, but on the contrary able to extend its minting to the shares of commercial companies.

[73] J. LOCKE, *Ragionamenti sopra la moneta, l'interesse del danaro, le finanze e il commercio, scritti e pubblicati in diverse occasioni dal signor Giovanni Locke, tradotti la prima volta dall'inglese con varie annotazioni. Tomo primo-secondo!: Ragionamenti sopra la moneta, l'interesse del danaro, le finanze e il commercio, scritti e pubblicati in diverse occasioni dal signor Giovanni Locke, tradotti la prima volta dall'inglese con varie annotazioni e con un discorso sopra Il giusto pregio delle cose e della moneta e il commercio dei romani*, to.2, Firenze 1751.

CHAPTER II

QUO VADIMUS OR WHERE TO NEXT?

SUMMARY: 1. A proposal for the *Banque de Turin*. – 2. *Plano per lo stabilimento di una banca privata ed erezione di una compagnia commercio.*

1. A PROPOSAL FOR THE *BANQUE DE TURIN*

The official year of birth of Savoy paper money is 1745 [1].

In fact, on 26 September 1745 the Regio Editto (the "*Royal Edict*") appeared and decided to introduce the first paper money in Italian history into circulation in the Kingdom of Sardinia.

However, the history of Savoy paper money had begun almost 35 years earlier, when there still was the court of Victor Amadeus II, Duke of Savoy [2].

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[1] R. BONNEY, *France and the first European Paper Money Experiment*, in *French History*, 15/3 (2001), pp. 254-272.

[2] Victor Amadeus II Francesco, Duke of Savoy (Turin, 14 May 1666 – Moncalieri, 31 October 1732), son of Carlo Emanuele II of Savoy, succeeded his father when he was only nine years old. Initially, the regency was entrusted to his mother, Giovanna Battista of Savoy Nemours, an ambitious and energetic lady, who reigned until the sovereign was fourteen years old. Victor Amadeus was the Marquis of Saluzzo and the Marquis of Monferrato, Duke of Savoy, Prince of Piedmont and Count of Aosta, Moriana and Nice. On 13 July 1713, with the document in which Sicily was ceded to the Savoy family, Victor Amadeus II obtained the royal title of King of Sicily, welcomed by an exultant crowd that gathered in front of the ducal palace, loudly praising the Savoyard King. He held this title until 1720. Subsequently, once Sardinia was acquired, the sovereign was awarded the title of King of Sardinia (1720-1730). His long reign radically transformed Piedmont politics, which were based on submission to foreign powers like France or Spain, proudly claiming the independence of the little state from neighbouring nations. For the life and political activities of the sovereign, see D. CARUTTI, *Storia del regno di Vittorio Amedeo II*, Torino 1863, ID., *Il Primo Re di Casa Savoia: Vittorio Amedeo II*,

This story therefore begins with the arrival of John Law, at the Savoy court, with the aim of proposing his 'crazy project' [3].

Victor Amadeus II entered the war for the succession to the throne of Spain fought by the King of France, Louis XIV [4],

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Torino 1897; V.E. STELLARDI, *Il Regno di Vittorio Amedeo II in Sicilia, Documenti raccolti e stampati per ordine della Maestà del Re d'Italia V.E*, II Torino 1862-1866; R. PALMAROCCHI, *Sardegna Sabauda: il regno di Vittorio Amedeo II*, Cagliari 1936; G. SYMCOX, *Vittorio Amedeo II. L'assolutismo sabaudo 1675-1730*, Torino 1989; M. VIORA, *Storia delle leggi sui Valdesi di Vittorio Amedeo II*, Bologna 1930; F. COGNASSO, *I Savoia*, Milano 2002; F. ROCCI, *Vittorio Amedeo II. Il duca, il re, l'uomo*, Torino 2006.

[3] COVA, *Banchieri e banche nell'Europa*, cit., p. 46.

[4] The War of the Spanish Succession was one of the most important European conflicts fought in the XVIII century, triggered with the death of the last King of Spain from the House of Habsburg, Carlos II of Spain. The question of who ought to have succeeded him was a concern for all the governments throughout Europe, and the attempts to resolve the problem with the division of the Spanish Empire among the eligible candidates proposed by the various dynasties failed. On his deathbed, Carlos II decided to entrust the entire Spanish Empire to his great-grand-nephew Philippe, grandson of King Louis XIV of France; with Philippe simultaneously ruler of Spain and part of the line of French succession, Louis XIV would have ended up uniting the two most powerful thrones in Europe and hence breaking the equilibrium of European stability (J.A. LYNN, *The Wars of Louis XIV 1667-1714*, London 1999). In order to counter his increasing influence, the English, Dutch and Austrian reformed the Great Alliance of the League of Augsburg and upheld the claims of Leopold I of the House of Habsburg on behalf of his second child, the archduke Charles. They then declared war on France in May 1702, which concluded eleven years later with the Treaty of Utrecht (1713) and with the Treaty of Rastatt (1714). The Spanish Empire was then divided up: the Austrians received a large part of the Spanish territories, but Philippe, after having renounced his rights to the French throne, continued to reign over mainland Spain and Spanish America, thus maintaining the balance between the European powers (H. KAMEN, *Philip V of Spain: The King who Reigned Twice*, Yale 2001). For the War of the Spanish Succession, see ID., The *War of Succession in Spain 1700-15*, Weidenfeld and Nicolson, 1969; A.D. MACLACHLAN, *The Road to Peace 1710-13*, in *Britain after the Glorious Revolution 1689-1714*, G. HOLMES (ed.), London 1969, pp. 197-215; J.H. ELLIOTT, *La Spagna imperiale (1469-1716)*, Bologna 1982; L. FREY-M. FREY, *The Treaties of the War of the Spanish Succession: An Historical and Critical Dictionary, in covers diplomatic, economic, & military roles and battles*, Westport 1995; V.L. SANZ, *Il governo asburgico del Regno di Spagna durante la Guerra di Successione*, in *Cheiron: materiali e strumenti di aggiornamento storiografico*, 20 (2003), pp. 51 ff.; D. FRIGO, *Guerra, alleanze e neutralità. Venezia e gli stati padani nella Guerra di Successione spagnola*, in *ivi*, pp. 129 ff.; G. MURGIA, *La Guerra de sucesión española en Italia*, in *La Guerra de sucesión en España: la Batalla de' Almansa, Europa en la encrucijada*, F. GARCIA GONZÁLES (coord.),

against the Anglo-Spanish alliance [5].

After dramatic military events and the failed siege of Turin in 1706, the Duke, Victor Amadeus II, with the Treaty of Utrecht, finally obtained the royal title (first King of Sicily, then from 1718 King of Sardinia [6]) and the desired lands [7].

Between 1720 and 1730, finally, there was a decade of peace and great political, social and economic progress for the new Kingdom.

It was in this context that the Constitution of 1729 was born, which put an end to all residual forms of feudalism [8].

Madrid 2009, pp. 187-229; G. NICHOLSON, *Marlborough and the War of the Spanish Succession*, Ozymandias Press, 2018.

[5] C. STORRS, *War, diplomacy and the rise of Savoy, 1690-1720*, Cambridge 1999.

[6] In 1718, with the Treaty of London, after the failed attempts to reach an agreement with Alberoni (in relation to which see the entry in *Dizionario biografico degli italiani*, to.I, Istituto della Enciclopedia Italiana, Roma 1960, curata da R. QUAZZA), Sardinia was assigned to Victor Amadeus II, Duke of Savoy, in exchange for Sicily, who in this way took on the title of King of Sardinia. Cfr. L. LA ROCCA, *La cessione del Regno di Sardegna alla casa sabauda: gli atti diplomatici e di possesso con documenti inediti*, in *Miscellanea di storia italiana*, t. X, Torino 1906, p. 134 e E. MONGIANO, "*Universae Europae securitas". I trattati di cessione della Sardegna a Vittorio Amedeo II di Savoia, Nota introduttiva*, di I. SOFFIETTI, Torino 1995.

[7] Following the so-called peace, which marked the end of the *War of the Spanish Succession*, the King of Sardinia doubled his lands. In addition to Sicily (which would then be ceded in 1716 to acquire Sardinia) he in fact re-obtained control of several territories that, during the 1600s, had ended up under French rule, such as Monferrato, the city of Alessandria, Valenza, Lomellina and Valsesia, in addition to the fiefdoms of Le Langhe and Vigevano. In this regard, see F. IEVA, *I trattati di Utrecht: una pace di dimensione europea*, Roma 2016, pp. 129-146. Cfr. *supra*, nota 4.

[8] The *Leggi e costituzioni di Sua Maestà* (known also as the *Regie Costituzioni* or *Costituzioni piemontesi*) are a set of laws issued in 1723 (*Leggi, e Costituzioni di S.M. da osservarsi nelle Materie Civili e Criminali ne' Stati della M.S., tanto di qua che di là da' Monti, e Colli. Loix, et Constitutions du Roi, Lesquelles devront être observées dans ses États, tant deçà, que delà des Monts et Cols, dans les Matières Civiles, et Criminelles*, Torino, G.B. VALETTA, 1723) and republished in 1729 (*Leggi, e Costituzioni di S.M. Loix, et Constitutions de Sa Majesté*, Torino, G.B. CHAIS, 1729, 2 voll.), and finally under Carlo Emanuele III in 1770 (*Leggi, e Costituzioni di S.M. Loix, et Constitutions de Sa Majesté*, Torino, Stamperia Reale, 1770, 2 voll.), containing a systematic set of the laws of the King of Sardinia, Victor Amadeus II, the laws of his predecessors. The work, consisting of 6 books, is

For Victor Amadeus II this meant transforming the Kingdom into a European power, developing state organisation and public finance, encouraging industry and trade.

In the early eighteenth century most of the State's income came from agricultural activity, whose products were mainly intended for self-consumption, and only just over 10% from commerce, and from the silk industry (the only local industrial product) [9].

Unemployment and pauperism were very high in the middle of the century. While 3% of the kingdom's population was made up of beggars, the capital, Turin experienced rapid demographic growth.

The population in Turin in 1715 grew to 55 thousand inhabitants.

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one of the first examples in Italy of the consolidation of law through the rationalisation of pre-existing sources.

The reconstruction of the matters that led to the issue of the *Regie Costituzioni* and the description of the main actors and failed attempts that preceded them are contained in the classic work of M.E. VIORA, *Le Costituzioni piemontesi (Leggi e costituzioni di S.M. il Re di Sardegna) 1723-1729-1770. Storia esterna della compilazione*, Torino 1928 [ripr. anast. Torino 1986]. An interesting summary of the legislative policy implemented by Victor Amadeus II is also offered by G. TARELLO, *Storia della cultura giuridica moderna*, *To.I: Assolutismo e codificazione del diritto*, Bologna 1976, pp. 197-202, which highlights the will of the sovereign to obtain «legal coherence, a clear order, the limitation of the will of the court, the proportionality of the punishment and the elimination of the most disputed questions», by consolidating the laws previously in force (p. 200). With regard to the external history of the compilation, please refer also to the contributions of I. SOFFIETTI, *Le fonti del diritto nella legislazione del Regno di Sardegna nel XVIII secolo*, in *Studi in memoria di Mario E. Viora*, Roma 1990, pp. 679-689; ID., *La Restauration dans le Royaume de Sardaigne: un conflit de rémanences*, in *Bibliothèque de l'École des Chartes*, 156/1 (1998), pp. 107-110; G.S. PENE VIDARI, *Legislazione e giurisprudenza nel diritto sabaudo*, in I. BIROCCHI-A. MATTONE, *Il diritto patrio tra diritto comune e codificazione (secoli XVI-XIX)*, Atti del convegno internazionale tenutosi ad Alghero il 4-6 novembre 2004, Roma 2006.

[9] L. EINAUDI, *La finanza sabauda all'aprirsi del secolo XVIII e durante la guerra di successione spagnuola*, Torino 1908, pp. 281-287; G. PRATO, *La vita economica in Piemonte a mezzo il secolo XVIII*, to.2, Torino 1908; ID., *Problemi monetari e bancari nei secoli XVII e XVIII*, Torino 1916; L. BULFERETTI, *Agricoltura, industria e commercio in Piemonte nel secolo XVIII*, Palazzo Carignano 1963; G. LOVERA, P. CAVION, S. MARTORANA, O. LAVASELLI & A. AGNATI, *Il movimento dei prezzi nel Piemonte Sabaudo dal 1700 al 1750*, in *Giornale degli Economisti e Annali di Economia* (1965), pp. 260-286; G. FELLONI, *Il mercato monetario in Piemonte nel secolo XVIII*, Milano 1968; *La prima battaglia del Re di Sicilia. Vittorio Amedeo II contro la povertà, in Utrecht 1713*, G.M. DI NOMAGLIO-G. MELANO, *I trattati che aprirono le porte d'Italia ai Savoia. Studi per il terzo centenario*, (a cura di), Torino 2020, pp. 61-78.

Financial restructuring was needed quickly and John Law, who was in Turin at the time [10], offered his ideas.

Law's important contribution to the theory of credit and bank money development, conceived by him between 1711 and 1720 in his Piedmontese Memorials [11], was generally ignored or little studied.

These documents show, instead, a new image of John Law. They

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[10] He went to Vienna, where it seems he proposed his projects to the Emperor, then to Florence, where he became a close friend of the Duke of Vendôme, and finally to Paris (L. DE SAINT-SIMON, *Mémoires complets et authentiques du duc de Saint-Simon sur le siècle de Louis XIV et la Règence*, t. v, Paris 1856, pp. 132-133). France was economically depressed and law succeeded in obtaining an audience with Chamillard. Here he found much resistance and eventually surrendered. In Paris, in 1708, Law is a frequenter of the actress Marie-Anne de Chateauneuf, called the Duclos. He plays a lot, spends a lot and in order not to take too much money with him he invented the "currency". But suddenly he is given an order from the chief of police of Argenson: to leave France within 24 hours. The declared motive: the frequent frequenting of gambling dens. The real reason: excessive luck at the gambling tables. Law and the family embarked for Genoa. With the end of the war and the prospect of a peace negotiation, Law thought of returning to The Hague from Genoa and stayed there throughout 1711. Then he went to Turin. Marmont du Hautchamp writes: «It is an evening in November 1708 in the Parisian salon of Marie-Anne de Chateauneuf – "La Duclos" – a celebrated actress of Paris's Comédie Française, and as usual she is entertaining Parisian society. Despite the lustrous presence of sundry ducs, marquis, and comtes, talk is uncharacteristically desultory. France is in the throes of the world's first global war, the War of the Spanish Succession, which has raged already for seven years and will endure for another six. Most are habitués of the tables – at this level of society everyone knows everyone else – but among them one man stands apart. He is fashionably clad, as one would expect, in a wide-skirted velvet coat, unbuttoned to reveal a damask waistcoat and cravat of Brussels lace, while a periwig of black curls cascades over his shoulders. But at over six feet tall – a remarkable stature in these diminutive days – he is a man of grand and imposing looks that according to one acquaintance "places him among the best made of men". Amid the twitchy players, he is also remarked for his gentle and insinuating manners, a serenity of temperament that amply reflects his outward appearance. During a lull in play La Duclos proudly presents the stranger as John Law, a Scottish gentleman visiting Paris. Her guests soon realize, however, that although Law is as charming and witty as he is physically attractive, he's reticent when questioned on his circumstances» (MARMONT DU HAUTCHAMP, *Histoire du système de finances*, cit. See also J. GLEESON, *Millionaire: The Philanderer, Gambler, and Duelist Who Invented Modern Finance*, New York 1999, pp. 19-22).

[11] M.J. WASSERMAN-F.H. BEACH, *Some Neglected Monetary Theories of John Law*, in *The American Economic Review*, 24/4 (1934), pp. 646-657; MURPHY, *John Law: Economic theorist and policy-maker*, cit.; BUCHAN, *A Scottish Adventurer of the Eighteenth Century*, cit.

explain how Law had a conception not so different from what we have today regarding the fundamental principles of these matters.

He was a prophet of the new banking system, which celebrated the greatest opportunity ever: wide margins of access to consumer credit would have fuelled a greater perception of wealth and wellbeing. In particular, the use of bank credit as a re-shuffling fund for the circulation of paper money would respond to the needs of commerce.

The liquidity crisis that was being experienced had to be stopped because it risked bringing the world back to the age of bartering [12].

«As money encreas'd, the Disadvantages and Inconveniencies of Barter were removed; the Poor and Idle were employ'd, more of the Land was Labour'd, the Product encreas'd, Manufactures and Trade improv'd, the Landed-men Lived better, and the People with less Dependence on them» [13].

Bartering was a nightmare to be averted, according to Law, in any case: the magic formula was to print money and pump it into the arteries of the system that had long since bled.

In the spring of 1711, Law obtained a private audience with the Duke, to whom he promised a solution to the difficulties being experienced in Piedmont [14].

Law submitted to an undated introductory text entitled *Introduction au Crédit* to Victor Amadeus II [15].

In this document, which is in part similar in content to what he would then propose to the Duke of Orleans, he outlines the nature and

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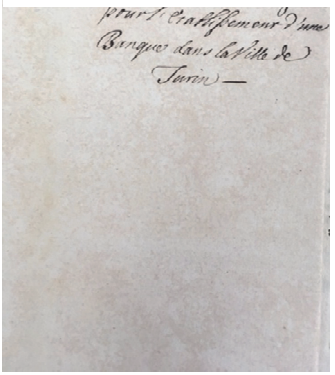
[12] LAW, *Money and Trade*, cit., Chap. I, pp. 8 ff. On this point see, O'BRIEN, *The Development of Monetary Economics: A Modern Perspective on Monetary Controversies*, Cheltenham 2007, pp. 40 ff.

[13] LAW, *Money and Trade*, cit., Chap. I, p. 11.

[14] G. PRATO, *Il costo della guerra di successione spagnola e le spese pubbliche in Piemonte dal 1700 al 1713*, Torino 1907; ID., *Un capitolo della vita di Giovanni Law, da documenti inediti; memoria*, Torino 1914, pp. 1-31, exp. p. 10.

[15] *Introduction au Crédit.* The document, which was written sometime early in the 1711 and submitted to the King is not published in the *Proceedings of the Royal Academy Science of Turin* by Perrero. The text is part of a large group of documents Sez. 1 (commercio), 3° cat. Mazzo I, no. 28 [According to Prato *Un capitolo della vita di Giovanni Law* p. 9 and p. 13 it dates back to 1712]. These documents were in fact taken over by Giuseppe Prato in 1914, who identified three unknowns and finally by A.E. MURPHY, (*John Law's proposal for a Bank in Turin (1712)*, in *Economies et Sociétés*, Séries Oeconomia, 15 (1991), pp. 3-29, esp. p. 24).

Figure 1 – ASTo, fasc. 6, mazzo 1, Proje 1



main functions of money, the development of credit and banking, and the services which the latter were to render to commercial companies.

In particular, in addition to the information on the banks in different countries and the specific aspects of the issuing of paper money, it also offered an example of a banknote, which is roughly drawn and then reproduced in the writings of Prato [16].

In view of the monarch's positive reaction, Law then prepared an articulate project, entitled *Plan for the Establishment of Banca Torino* for the creation of a State Bank with the function of issuing paper money.

Law proposed the creation of a Bank [17] – called the *Banque de Turin* – which would issue paper money, but would also be a State Treasury and Tax Office. The bank was conceived in the form of a joint-stock company in which John Law reserved 10% of the share capital for himself.

The Duke of Savoy was to deliver a quantity of capital consisting of both the State Treasury and future taxes to this Bank, receiving in return an equal amount of paper money.

This card money could have been used by the Treasury to make its payments, as well as being accepted on account of tax payments.

The *Banque de Turin*, treating them as bearer bonds, would exchange them on demand with equivalent coins whenever requested.

Acting with great caution, compared to what was then to happen in France, Law proposed the issue of a limited amount of paper money: a maximum of one million Italian *lira*.

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[16] PRATO, *Un capitolo della vita di Giovanni Law*, p. 13. An interesting fact: in the numerous reports, the British banker also adds a sketch of a hypothetical banknote. This was the first Italian banknote, but also one of the first European banknotes.

[17] Bank proposal is written in fluent and inaccurate French. The bank proposal is undated, except for a specimen banknote which carries the sample date of 1 March 1712. See, PRATO, *Un capitolo della vita di Giovanni Law*, cit., pp. 9-12 and pp. 29-30.

In this phase, although he steered the circulation of currency and did not consider the pre-fixed limit to be unsurmountable, the Scottish banker always supported the opportunity to issue credit notes at the rate that was necessary to sustain commerce.

And, in any case, he always considered it appropriate to issue a quantity of paper money that was no greater than the metal coins deposited at the Bank by the Treasury and private citizens.

This is therefore far removed from the unscrupulous transactions that he went on to conduct five years later as Minister of Finance in France [18].

In his project for the Duke of Savoy, John Law did not yet consider it necessary, or appropriate, to resort to the forced circulation of credit notes.

On the contrary, he thought that things would have gone ahead by themselves. In fact: «once everyone has seen that the exchange works very carefully, they will be happy to accept them and will prefer

[18] In the summer of 1713 he had in fact returned to Paris for the third time. Without delay on Christmas Eve he had once again asked for an audience with Desmartes who had replaced Chamillard, but to no avail. He tried again in January 1714, then left for Holland, where his wife was waiting for him. Two months later he returned to Paris and bought a house in the centre of the city (place *Luois Le Grand*) and began numerous meetings with the Controller General of Finance. So, here Law did not propose any compromise: he offered his project as a whole, i.e. that of a general bank that would have suffered the commercial effects, would have received the earnings of the State, would have exercised trade monopolies and at the same time would have offered the general public an abundant quantity of paper money and an advantageous investment opportunity. The finance council did not accept Law's project, forcing him to moderate his claims. The result was that he limited himself to proposing the establishment of a simple discount bank and also offered to invest his personal assets in it. But it was only after the death of Luigi XIV that he obtained permission to proceed. The reason why Law succeeded in applying his system so easily in France was because he entered the scene at a time of great confusion. No one cared more than the Regent about the deplorable situation of the country, but no one was farther than him from the idea of seriously getting to work. He was a man that did not love his office, who signed official documents without examining them closely and that delegated to others that which he ought to have taken responsibility for personally. It is therefore no wonder that with this character he listened favourably to the powerful projects proposed to him by the intelligent adventurer, that seemed so easy to implement. In this regard, see WOOD, *Memoirs of the Life of John Law of Lauriston: Including a Detailed Account of the Rise, Progress, and Termination of the Mississippi System*, cit.; MACKAY, *Extraordinary Popular Delusions and the Madness of Crowds*, cit.

them over metal. […] The great convenience of notes compared to metal coins will make them prefer them […and] the greater the credit will be, and therefore the greater the solidity of the Institute will be, the smaller the coercion will be» [19].

With a strong government bank that provided the necessary credit facilities, Law told the sovereign that Piedmont would gradually have earned its position back as one of the main trade centres in Italy.

Victor Amadeus II, a man of limited horizons, not well-educated, a bigot and careful with money was pressured by financial needs.

He had in fact made gains that were out of proportion to the mediocrity of his title and his wealth. He had come through the war thanks to the brilliance of his cousin Prince Eugene, rather than as a result of his own military strategy [20].

The prospect of receiving an increase in his lands may have motivated the Duke, and may have led his advisers to think of a bank to finance it [21]. No doubt John Chetwynd helped to introduce John Law to the Savoyard ministers. The Duke was always likely to listen to a citizen (even if an outlaw) [22] of the Great Island, England or Scotland.

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[19] A. PERRERO, *Law e Vittorio Amedeo II di Savoia, Curiosità e ricerche di Storia subalpina*, in *Curiosità e ricerche di storia subalpina pubblicate da una società di studiosi di patrie memorie*, to.I, Torino 1874, pp. 31-33.

[20] E. PARRI, *Vittorio Amedeo II ed Eugenio di Savoia nelle guerre della successione spagnola: studio storico con documenti inediti*, Milano 1888; I. JORI, *Eugenio di Savoia (1663-1736)*, to.I: *Dalla nascita alla battaglia di Cassano (16 agosto 1705*); to.II: *Dalla campagna di guerra del 1706 alla sua morte*, Torino 1934; D. MCKAY, *Prince Eugene of Savoy*, Thames and Hudson Ltd, 1977; AA.VV., *Principe Eugenio di Savoia (1663-1736) nel 250° anniversario della morte*. Atti del Simposio (1986). Ediz. bilingue Italiano-tedesco, Accademia Studi Italo-Tedeschi, Collana dei Simposi, Torino 1988; A. DAMERI-A. POZZATI, *Tra Spagna e Austria: Giovanni Battista Sesti ingegnere militare*, in *Defensive Architecture of the Mediterranean*, 7 (2018), pp. 95-102, esp. pp. 96-97.

[21] Law later said that Victor Amadeus II was one of only two men – the other was Philippe, Duke of Orleans – who understood what he was talking about. (in H.F. HELMONT, *Elizabeth Charlottens Briefe an Karolin von Wales,* Annaberg 1909, p. 368); O'BRIEN, *The Development of Monetary Economics: A Modern Perspective on Monetary Controversies*, cit., p. 41.

[22] W. BLACKLEY, *The diplomatic Correspondence of the right Hon. Richard Hill*, London 1845, to.2, p. 811.

The project of the Scottish banker was therefore seriously considered and submitted for consideration to a committee, consisting of three of the greatest financial minds in the country.

They were all economists: Gian Battista Gropello [23], Count of Borgone ducal finance minister; Count Antonio Garagno [24], general

[23] Born around 1650 in Avigliana, to a provincial lower middle-class family, without a sound cultural education, but with the gift of practical intellect, he soon made his mark first with the Marquis of San Tommaso, Carlo Giuseppe Carron, and then in 1686 as a notary public and secretary of the Avigliana community. renewed the Savoy state. The war, in fact, had not only sowed death and devastation, but had bled the coffers of the state. At that time, a new administrative system was needed to control the taxes, to guarantee supplies: the idea was based on the French model of the intendant, i.e. officials who took charge of all these functions. In France the steward was a hereditary office, but in Piedmont he was not, he was a mercenary: he was a state official in charge of controlling, and reporting in case of irregularities, the functioning of the various local authorities. If France was immense and controlling the stewards was extremely complicated, the Duchy of Savoy was something else entirely. The stewards were closer, easier to keep an eye on: all this was fundamental to achieving the Duke's and his General of Finance's "mission" of unhinging privileges. After six years of French occupation, Vittorio Amedeo wanted control to unhinge infidelities, to settle accounts with those who had committed crimes during the war. So a special court was set up, headed by Gropello himself, and it was decided to establish a compulsory registration of notarial deeds in Savoy as well as in Piedmont. Only official notaries. Control, to rebalance an unsettled state. To re-balance a system that has been ruined by imbalances, inequalities and poor redistribution. The twenty-five years in which Giovanni Battista Gropello remained in Vittorio Amedeo's service were years of commitment to rebalance the budgets of local communities, with the aim of creating a fiscal base that was solid and elastic. At his death, the Count of Borgone had given not only a new tax system to the state. He died in Turin on 28 August 1722. Cfr. Torino, Bibl. Naz., A. MANNO, *Il patriziato subalpino*, IX (datt.) p. 586 s.; M. PAROLETTI, *Vite e ritratti di sessanta illustri piemontesi*, Torino 1824, *ad vocem*; G. GALLI DELLA LOGGIA, *Cariche del Piemonte*, III, Torino 1798, p. 174; V. CASTRONOVO, voce *Borgone, Giambattista Gropello, conte di*, in *Dizionario Biografico degli italiani*, II (1971), online. See ASTo, Archives de cour Matieres politiques pour les affaires interieures/Lettres des particuliers, [GGASI] Général des finances: Gropello (1692-1721).

[24] Born around 1630, probably in Turin. His father, Lorenzo, came from a family of merchants from Chieri, several of whom were active from the second half of the fifteenth century. After working as a banker, in 1659 he was appointed counsellor and treasurer of the royal house, eight years after he was appointed head auditor of the Board of Auditors, and was then promoted to the office of President and General of Finance of Piedmont (replacing Count Giovanni Andrea Ferraris). In this role, together with Giovan Battista Truchi, in 1678 he was among those that opposed the replacement of the tax on salt. A last, less important, field of action of

superintendent of commerce and industry; and Count Francesco Giacinto Gallinati [25], general controller of finance.

In the summer of 1711, the three of them produced individual reports. It is true that they did not reject the project, but they pointed out many doubts about the work of Law [26].

They could not look beyond what they already knew. All the bank's business for them was reduced to the deposit and the discount on the unsecured debt.

No-one really understood the importance of the flow of paper money and the role it could play in promoting trade.

In the memorial, possibly in response to a query from one of Victor Amadeus' ministers, Law compares the success of the Bank of England notes to the failure of the mint bill in France. In the first case, private investors reinforced King William's credit, whereas the mint bills were too obviously a measure of war finance.

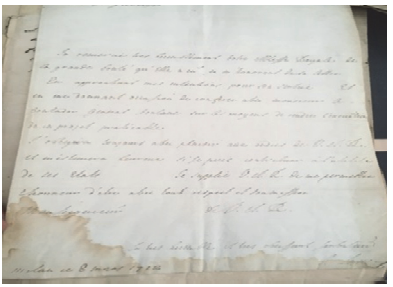
Law proposed the establishment of a national bank, under the direct control and supervision of the government, to act as a central depository for both public and private funds. But he wanted assurances, namely.

Garagno was the Municipal Council of Turin, which was reformed by the Duke Victor Amadeus II in 1687. In Piedmont in 1687 Vittorio Amedeo II appointed the Count Antonio Garagno, General Superintendent of Commerce, Arts and Manufacturing, and with an edict of April 28, 1701 established the Consulate of Commerce with the task of promoting economic activities and administering mercantile justice. On January 15, 1729 was also established the Council of Commerce with the task of supervising all trade and develop trade. Cfr. G.S. PENE VIDARI, *Giudice "togato" o no? I tribunali di commercio sabaudi nel sec. XIX*, in *Studi piemontesi* VIII (1979), 1, p. 38; MANNO, *Il patriziato subalpino*, cit., to.*Gab-Gau*, p. 163; E. STUMPO, *Finanza e Stato moderno nel Piemonte del Seicento*, Roma 1979, pp. 289, 319; R. DAVICO, *Lo Stato, la Faida, la "Viva Maria"*, in *La guerra del sale (1680-99). Rivolte e frontiere nel Piemonte barocco*, III, G. LOMBARDI (ed.), Milano 1986, p. 97; A. MERLOTTI, voce, *Garagno, Antonio*, in *Dizionario Biografico degli italiani*, LII (1999), online.

[25] With regard to the relationships between Law, Gropello, Garagno and Gallinati, see A. FOSSATI, *Contributi alla storia della carta moneta. Nuovi studi su gli eventi monetari della fine del sec. XVIII in Piemonte*, Torino 1943, p. 70, nota 1; F. CESARANO, *Law and Galiani on Money and Monetary Systems*, in *History of Political Economy*, 22/2 (1990), pp. 321-340. See ASTo *Archives de cour Matieres politiques pour les affaires interieures/Lettres des particuliers*, Gallinati F.G. (intendente di Nizza) 1697; MAZZO 5 della lettera G.

[26] Antonio Garagno sent his opinion to the Duke on 10 June 1711. The other two relations are undated.

Figure 2 – ASTo, mazzo I, fasc. 6, n. 25 *Lettera di M. Law col supplemento del progetto per lo stabilimento d'una banca*



Since the payment for the paper tickets was located in the bank's coffers, merchants may have had difficulty in using them to make their payments.

However, His Royal Majesty could have declared that if any ticket presented at the counter had not been paid on sight, from that day on it would have yielded an interest rate of 8 % until payment [27].

Meanwhile, with the end of the war, Law returned to Holland, where he remained throughout 1711.

On his way back through Milan, on 7 March 1712 [28], Law was summoned to meet an envoy of the Duke. The envoy was Giangiacomo Fontana, auditor general of the military since 1709 and one of the closest friends of Victor Amadeus II.

That month Victor Amadeus sent Count Giacomo Fontana [29] to Milan, where Law was staying, to study some aspects of the work of the Scotsman in greater detail.

Law's response to the Duke showed that the latter was evaluating his proposals: «Monsieur je remercie très humblement V.A.R. de la grand bonté, qu'elle a eu en m'honorant de sa lettre. En approuvant

[27] Law, later on, wrote that this attracted him more to the Duke's service than to that of other princes, and that it was a pleasure dealing directly with him without being obliged to deal with ministers. (Law to Victor Amadeus, Paris, August 16 1715, printed in PERRERO, *Law e Vittorio Amedeo II di Savoia*, p. 42).

[28] On 15 November, he was in Milan with Ippolito de Mari and his brother Gian Battista, staying in the parish of San Giorgio al Pozzo Bianco near the Porta Orientale. That day, the De Mari brothers witnessed a document giving power of attorney over Law's Genovese affairs to Consul Henshaw (ASGe, Banca di San Giorgio Mandati, 7552, 1709-1712, ad. loc.).

[29] Fontana, a year younger than Law, born into a modest family in Mondovi, had risen in the Duke's service and as quartermaster general (*intendente generale dell'esercito*) and had been praised by Prince Eugene for managing transport and supply in the relief of Turin. See A. GIRGENTI, *Vittorio Amedeo II e la cessione della Sardegna: Trattative diplomatiche e scelte politiche*, in *Studi storici*, 35/3 (1994), pp. 677-704.

mes conclusions pour son service, et en me donnant occasion de confère avec Mons. Le Contador General Fontana sur *de rendre l'execution de ce project praticable*» [30].

On the same day, probably, in another letter, to the Duke's controller general Giambattista Groppello Law wrote: «Monsieur Croyant que S.A.R. n'auroit pas eu le loisir presentement de considerer le project en question, je m'etois proposè de partir pour l'Hollande veiller sur mes affaires particulieres. Mais ayant receu l'honneur de votre lettre avec le pa-quet qu'il a pleu à S.A.R. de me mander, je a changè ma resolution, et me rendra seulement à Genes faire quelques remises des quelles j'at besoin en Hollande.Ce matin je a donnè la lettre de S.A.R. à Mons. Le Contador General Fontana […] Le Contador General parte, ou me rendra à Turin pour la porter à quelque conclusion. […] En attendant j'avais eu dessein de vous prier de raccomander à ces Messieurs, à qui S.A.R. aura communiquè cette affaire de n'en parler […] Asseurè de votre entier attachement aux interets de S.A.R., j'espere Monsieur que vous m'excuserez les incommoditès que mon desir de la servir m'a engagè à vous donner» [31].

Perhaps Law wanted to delay his departure until after a meeting with Fontana [32]. In order to better explain some of the ideas about banking that he held in his first memoir, Law drew up some short supplementary notes (*minuta di editto*, undated) [33].

If he travelled across Turin he left no trace and something caused

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[30] ASTo, *Lotterie, tontine e banco di deposito*, mazzo I, fasc. 6, n. 25, *Lettera di Mon. Law Inglese col supplemento del progetto per il stabilimento d'una banca, et il progetto di una lotteria*, Milano, 8 marzo 1712, «Sire I thank Your Royal Highness for your great bounty in honouring me with your letter and in approving my proposals for your service and giving me the opportunity to confer with Auditor General Fontana over the means to make possible the execution of the project». Cfr. PERRERO, *Law e Vittorio Amedeo*, cit., pp. 37-38.

[31] *Ivi*. Cfr. PERRERO, *Law e Vittorio Amedeo*, cit., p. 38.

[32] Law was probably back from Genoa before 23 March 1712. If he travelled via Turin he left no trace and he continued to Holland (*supra* nt. 18). Cfr. H. MONTGOMERY HYDE, *John Law: the history of an honest adventurer*, London 1948, p. 71; BUCHAN, *John Law: a Scottish Adventurer*, cit.

[33] «Monsieur Le pacquet eu joint pour Le Roy m'à eté remis par M.Las. Il contient en premier lieu une lettre qu'il ecrit dans la quelle il a le noveu Plan […] ensuit les trois memoires plus essentiels pour l'esecution de la banque qu'il a proposé»? See also PRATO, *Un capitolo della vita di Giovanni Law*, cit., p. 13 e pp. 30-31, n. II.

him to give up on Victor Amadeus and continue to Holland [34].

Unfortunately, the circumstances rendered these initial meetings and mutual good intentions useless. And an opportunity was lost that, although nurtured over time, did not return.

After Utrecht and having lost Sicily, Victor Amadeus obtained the title of King for his lineage. All this kept him far from Turin until 1714. Nevertheless, he never lost sight of Law's project, who was invited to come and resume the work [35].

However, Law was already working on more ambitious prospects. When he received the invitation from Piedmont, his dealings with Desmartes, Auditor General of France, were already well underway [36].

The courtesy and good manners he showed towards the new King of Sardinia meant that he still maintained a good relationship with the latter, as well as a way out if things went wrong in France [37].

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[34] No doubt that the Duke wished to wait on the peace conference. Settling in The Hague, on 21 July, Law bought a town house for the sum of 4000 guilders in Nieuwe Uitlegging, or today Nieuwe Uitleg. He opened an account at the Amsterdam Change Bank (*Amsterdamsche Wisselbank*). He also established an account in London jointly with his friend, Lor Archibald Ilay, at John Campbell's bank to invest in the British and Dutch Lotteries and the share of the South East and East India Companies (Archief van de Wisselbank, Amsterdam Stadsarchief, 5077 *Inventory of the Exchange Bank Archives*) 5077-197, '142', 2e deel (August 1712-February 1713), p. 1383. Cfr. GILLARD, *La Banque d'Amsterdam et le Florin européen au temps de la République néerlandaise (1610-1820)*, cit.

[35] The continued interest of Victor Amadeus for Law's work is demonstrated in his correspondence with the Secretary Filippo Donaudi, who was in Paris in 1715. Cfr. A. TRIVERO, *I biglietti di credito e la politica monetaria delle regie finanze sabaude*, Cassino 2010, pp. 6 ff.

[36] Letter of 16 August of Las from Paris to Victor Amadeus.

[37] Meanwhile Donaudi had been appointed to get information on Mr. Las and his work. The text of the letter written in Paris on 12 October 1712 is in Italian: «Sire, in esecuzione dei comandamenti della Sacra Maestà Vostra del 29 agosto ho procurato destramente di scavare qualche lumi dal Sig. Las che ha qui proposto prima della morte del Re Defunto. Egli mi ha detto che se il suddetto Re fosse vissuto ancora quindici giorni, avrebbe egli messo in esecuzione il suo Progetto, il quale era già stato dalla M.S. gradito. Attualmente egli negozia à dirittura col Sig. Duca di Orleans al quale pendente la vivenza del re Defunto aveva comunicato tutti quei passi, che faceva intorno al Suo Progetto. Questo è presentemente sul tappeto e si esamina e fra pochi giorni crede egli che la risoluzione sarà presa se dovrà mettersi in esecuzione o no […] Il Sig. Las mi ha anche confidato una parte del suo progetto che consiste in una Banca Reale colla quale e nella forma che ne ha fatto

On 1 September 1715, in fact, Louis XIV died, leaving Law and his projects suspended in mid-air [38].

In the next year he also interrupted correspondence with Piedmont [39]. The bond between Law and France had become so strong that any advice coming from him would only have appeared suspicious to the sovereign of another State.

Despite this, The *Introduction Au Crédit*, the *Plan* and the *Minutes* contain very appreciable and anticipatory comments on what the future of the economy would look like.

They are far removed from what Law would later achieve in France.

It was in the *Plan* [40] for the establishment of a private bank in Turin that the Scottish banker drew up credit plans for private institutions that were so sound that they could be defined as the most acceptable example of credit practice in those times [41].

Let's take a closer look at it.

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il piano pretende di ristabilire tanto il credito e la confidenza de' popoli verso il Sovrano che pretende che questa Banca sarà conservatrice di quasi tutto il denaro del Regno […]», [37] ASTo, *Lotterie, tontine e banco di deposito*, mazzo I, fasc. 6.

[38] In a letter of 7 December 1715, Law writes to Victor Amadeus again from Paris, telling him about the complications of his project in France and his new hopes after the death of the *Roi Soleil*. He also explains the content of the material of the lottery projects that he in a promise to Donaudi (letter, 12 October 1715, as above) had previously sent. «Sire Je pris la libertè d'envojer a V.M. par le Marquis Rivarol mes Memoires touchant le projet de Banque que j'avois proposè de etablir en France […]». Finally, he tries to dissuade Victor Amadeus from using lotteries to fix the public finance. «Quand on supposeroit qu'une loterie pourroit etre remplie à Turin, je suis d'opinion que V.M. feroit mieux d'emprunter les sommes dont elle a besoin à la maniere ordinaire, piutot que de faire des loteries […] le bourgeois employent dans ces loteries l'argent qui devroit soutenir leur commerce et leurs creancies; ces sortes du projets ne doivent pase tre permis dans les Etats bien reglès». We do not know the Sovereign's response to Law's advice, but with the Regie Patenti ("*Royal Patents*") of 30 May 1719 and the Regio Editto ("*Royal Edict*") of 25 June 1720 he used the loan.

[39] The letter of 16 January 1716, preserved in ASTo, *Lotterie, tontine e banco di deposito*, mazzo I, fasc. 6, closes the correspondence between Law and Victor Amadeus, even if, in reality, contact between them ceased only in May 1718 (Donaudi 16 May 1718).

[40] ASTo, *Lotterie, tontine e banco di deposito*, mazzo I, fasc. 6, n. 1 B, *Projet de M. Law Anglois pour l'etablisment d'une Banque dans la ville de Turin.*

[41] J.S. NICHOLSON, *A treatise on Money and Monetary Problems*, London 1888, p. 393.

2. *Plano per lo stabilimento di una banca privata ed erezione di una compagnia di commercio*

Law's Piedmont documentation, as we have seen, is rather complex. This was perhaps the reason why the Ministers responsible for analysing his work were misled [42]. Law certainly often repeated his concepts in these writings, but there were also many substantial additions and amendments to his thinking, which enriched his theory of credit and the flow of money, presenting a plan on the foundation of an original and innovative banking system prior to the so-called System that then took hold in France.

In order to submit a complete declaration of his ideas to the Council of Finance of the King [43], Law in fact prepared an introductory document entitled *Introduction au Credit*, which is undated, but most probably written at the start of 1711 [44].

In this document the Scot described the nature of the main function of money, the development of credit and banks, and the services that credit institutions in circulation at the time offered to commercial enterprises.

In particular, he referred to the situations that he knew more about: i.e. England and Holland.

Immediately afterwards and with the aim of enticing the Duke of Savoy, the Scot proposed a *Plan for the Establishment of a Bank* in the Piedmont capital.

This plan proposed a national bank, under the direct supervision of the government, which would act as a central deposit for both public and private funds. The document consisted of just a few pages, and, like we said, on first glance the project seemed simple and not too detailed.

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[42] Velde, *Government Equity and Money: John Law's System in 1720 France*, cit., pp. 38-39.

[43] Law later wrote that what attracted him to the Duke's service over that of other Princes was the pleasure of dealing directly with him «without being obliged to deal with Your Majesty's Ministers» in *Law and Victor Amadeus*, Paris, August 16, 1715, printed in Perrero, *Law e Vittorio Amedeo II di Savoia*, cit., p. 42.

[44] The memory reproduced by Perrero reappears throughout the first part of *Introduction au credit* and is used for the second paragraph of the *Premiere memoire sur les banques*.

It was, in fact, only at the beginning of 1712, after the criticism received from the three economists appointed by Victor Amadeus to review his work, that John Law sent his last and most important *memoire* from the point of view of banking theory.

This document was the *Plano per lo stabilimento di una banca privata ed erezione di una compagnia di commercio*, which was without doubt his masterpiece.

The system was not put in place, it is true, but it had every potential to be successful. A text that was so simple and sound, and that constituted the most acceptable example of credit theory and practice of those times [45].

The credit institution that Law wanted to set up in Piedmont was in fact a rather complex affair that went through many stages of development in which all his plans were gradually perfected.

As we saw, there were two projects that ran in parallel.

Law was no longer thinking of a State Bank, but rather of a private bank (which he then in fact set up in France in 1715 and managed personally).

A bank with privileges, but not monopolistic, strictly specialising in credit transactions (including loans backed by pledges), but protected from the dangerous interference of State politics, while being subject, at the same time, to the most absolute publicity of its management, with the power to issue banknotes, but with prudential rules with regard to its reserves.

Added to this was a State credit institution in charge of the cash service for the tax office and private clients, with the specific task of organising the issue of banknotes subject to the number of deposits received and with the obligation to keep a reserve of coins that was strictly proportional to cover the cash flow in circulation [46].

And more specifically, Law offers Victor Amadeus and his ministers a choice: a private 'general' bank with a capital of 100,000

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[45] This is a long and detailed memorial, in which the arguments in favour of a bank and monetary principles are systematically set out. However, the interest of the paper lies in the fact that it provides us with explanations and a series of proposals addressed to Vittorio Amedeo II, which will only later be addressed to the French Regent. Cfr. PRATO, *Un capitolo della vita di Giovanni Law*, cit., p. 14.

[46] I.M. FACHAN, *Historique de la rente francaise et des valeurs du trésors*, Paris 1904, p. 71; A.W. WINSTON GLYNN, *John Law of Lauriston, financier and statesman*, Edinburgh 1907, pp. 18-20.

pistoles, a twenty-one-year monopoly and the right to make loans and issue banknotes [47]; or a ducal or state-owned bank or *caisse générale*, which would receive the state revenues, issue banknotes, make loans, and cash bills of exchange.

Furthermore, no shareholder might own more than ten shares except the projector, who might have hundred or 10 percent of the company. After suggesting the general character of the proposed private bank in twelve stipulations, Law explained some of the more important features of its organisation and operation.

The institution is officially created by a royal charter setting forth the privileges and rights of the bank and its members.

Persons will be permitted to subscribe for no less than one full share, one-half the amount due on each subscription payable in cash and the balance within one year.

The shareholders will have comprised of *The Assembly of Associates*.

At each annual meeting this group will be able to select a *Director* general, two *Treasurers* and two *Cashiers* from among its members, this elected five constituting the active *board of Directors* in charge of the daily operations of the institution.

The basic idea was in fact always the same: the false principle that capital and money were the same thing and that it was enough to increase one in order to increase the other [48].

What Law actually did was put down clear markers that should have made his banking model work perfectly.

The idea of a reserve of coins that is stated in the observations attached to the *Plano per lo stabilimento di una banca* demonstrates how he is actually overly prudent when he proposes that ¾ of the entire coins in circulation in Piedmont were to be kept in the reserve [49].

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[47] The convenience of the banknotes, according to Law, will make them preferable to the metal species also in Piedmont «car les Piemontais chechent leur commodité comme les autre nations».

[48] This absurd principle went hand-in-hand with inflationary madness, which was practically inevitable and, as a result, bankruptcy.

[49] Law writes how the Bank of England was limited to constantly keeping 1/3 of its deposits in cash to be used for the exchange service. Cfr. L. BLANC, *Histoire de la Révolution Française*, Paris edité par Sans Da-te (Vers 1880), to. I, p. 213.

This cornerstone, together with absolute publicity, the transparency of banking transactions and the independence from all interference from the State should have made the bank a model that worked perfectly.

These principles of prudence are undoubtedly meritorious and show a systematic plan for the practical execution of his ideas and his theories, which were reviewed and re-worked several times over the course of time. The Turin bank manuscript can be interpreted on two levels. At the first level it was examined by Perrero (1875), Prato (1914) and Murphy (1990), and shows the recommendations of John Law to Victor Amadeus on the constitution of a bank in Turin.

At the second level there is a more significant story to analyse. This is the assessment on the part of Law of two important monetary experiences: the first regarding the development of the Bank of England [50], together with the restructuring of the East Indies Company; and the second regarding the issue of *billets de monnaie* in France and their failure [51].

The two questions concerning the creation of money and the management of debt were associated, even if not directly relevant within the framework of the specific recommendations for the constitution of a bank in Turin.

Law's objective, in fact, was not to create a bank that issued banknotes in Turin on the basis of the model of the Bank of England. His aim was to show why the English had been successful and why France had failed.

The French, in fact, had created a kind of paper money, the *billet de monnaie*, which circulated between 1701 and 1711 [52].

In doing so, he had to discuss the ways of managing debt, highlighting why Great Britain had managed to set up a bank and grant a loan to the government, thus contributing to relaunching the economy, whereas France, on the contrary, had established a new credit

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[50] A. GRAHAM, *Corruption, Party and Government in Britain, 1702-1713*, Oxfors 2015.

[51] C.F. LEVY, *Capitalistes et pouvoir au siècle des Lumières: les fondateurs des origines à 1715*, cit.

[52] J. FELIX, *The most difficult financial matter that has ever presented itself': paper money and the financing of warfare under Louis XIV*, in *Financial History review*, 25/1 (2018), pp. 43-70.

system that enabled the government to increase loans, reducing economic activity.

The result was that in England, prior to the creation of the Bank, the government found it difficult and costly to borrow money [53]. After it was able to borrow more at a lower cost than before.

The exact opposite happened in France, but why?

The collapse of the *billet de monnaie* had in fact increased debt and the hostility of public opinion towards State debt [54].

This is probably why Law took great care in the text he prepared for the Duke of Savoy to distance his bank proposals from this previous failed experience of paper money.

In his later *memoires*, there are in fact many references to the *billets* and their defects.

First of all, it is written that the *billets* were issued as high denomination banknotes and therefore could not be used for ordinary, small transactions. Secondly, Law criticised the behaviour of the government that, on the one hand, forced the *billets* to be accepted

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[53] The institute (also called The Old Lady of Threadneedl, after the name of the street where it is located) was founded on 27 July 1694. The burning defeat suffered by the French at the Battle of Beachy Head in 1690, during the War of the League of Augsburg, was the premise for the refounding of England as a world power. England had been forced to equip itself with a powerful fleet, but the state coffers were empty and the credit of King William III's government was so low in London that it was impossible for him to borrow the necessary £1,200,000. William Paterson then presented the central bank project to the government in 1693. The project involved the printing of paper money to cover part of the £1.2 million loan. To persuade them to participate in the loan, the subscribers had to be associated under the name of Governor and Company of the Bank of England. The Bank received the management of the state budget and public debt, as well as the privilege to print paper money. Creditors would pay the State money in exchange for government bonds. The Bank of England Charter was granted in 1694. Given the poor state finances, the loan was repaid with an annual interest rate of 8%. Cfr. W. BAGEHOT, *Lombard Street: a description of the money market*, London, Henry S. King and Co., 1873; H. ROSEVEARE, *The Financial Revolution 1660-1760*, Longman 1991, p. 34.

[54] John Law acknowledged, France had already used paper money, and the dire memory of this earlier monetary experience featured high among the arguments of those, in government, who initially opposed the Scot's proposal to establish a bank and issue notes. 'The public', John Law observed in December 1715, «is against the bank because of the billets de monnoye [mint bills], of the caisse des emprunts, etc., which have brought great prejudice to commerce and individuals» in HARSIN, *John Law: Œuvres complètes*, to. II, cit., p. 274.

for ordinary payments, but at the same time refused them as payment for Hôtel de Ville revenue (*rentes*).

The inconsistency of the government can then be clearly seen when it used banknotes to fund its own expenses, but at the same time refused to accept them for the payment of long-term State securities, which increased the public's distrust in them.

Law, personally, had expressed all his concerns during his stay in Paris to Chamillart [55] and had also predicted the consequences of an excessive expansion of this type of money that was thus devalued [56].

However, no one listened to him.

The pressure of war and the lack of alternative sources of funding had forced the country to rely on them.

Law, on the other hand, believed that the minister ought to have worked harder to increase the demand for paper money in order to stabilise its value.

On the contrary, Chamillart, after having allowed the *billets* to be used in part as payment for the purchase of long-term government securities, had adopted a losing policy, encouraging rich merchants to become a burden for the state rather than continuing to increase economic production, destroying part of the circulating capital by investing it in revenue.

The thinking behind the constitution of the Turin bank is very

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[55] The first introduction of paper money in the kingdom took place on the initiative of Michel Chamillart (1652-1721), who held the posts of both contrôleur général des finances (1699-1708) and secrétaire d'État de la guerre (1701-1709). The decision to issue paper money as legal tender is certainly Chamillart's most original and dramatic (if largely forgotten) contribution to the history of France, as it led to the first experience of fiat money inflation. Not surprisingly, this experiment has not gone unnoticed by fiscal historians (A. DE BOISLISLE, *Mémoires de Saint-Simon*, to.14. Paris 1899; A. SELIGMAN, *La première tentative d'émission fiduciaire en France: étude sur les billets de monnaie du Trésor Royal à la fin du règne de Louis XIV, 1701-1718*, Paris 1925; P. HARSIN, *Crédit public et Banque d'État en France du XVIe au XVIIIe siècle* Paris 1933; LÜTHY, *La Banque protestante en France*, cit.; DESSERT, *Argent, pouvoir et société au Grand Siècle*, cit.; E. THIVEAUD, *Monnaie, finances et politique en France: de la refonte générale des espèces de septembre 1701 à la réforme monétaire du 15 juin 1726*. Unpublished PhD thesis, 1995). Cfr., *infra*, Chap. III, note 19.

[56] When he had been in Paris (1707) the *billets* were sold at 50 per cent discount in foreign exchange transactions. On the foreign exchange market there was a two-tiered exchange structured with quotations made in both types of *billets de monnaie*.

significant, but there is no space for its implementation.

Unfortunately, this is not a good time for Law, or anywhere, for that matter.

In 1713 the Duke Victor Amadeus II, with the aim of obtaining the title of Sovereign and being recognised as such by the royal families of Europe, accepts his nomination as King of Sicily [57].

He leaves Turin and Law roams Europe until 1715 [58].

In April he arrives in Paris with all his mobile riches in tow: 1,500,000 *livres*.

There is half of that sum in the State coffers.

Saint Simon would like to declare bankruptcy [59]. He takes his time.

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[57] On 24th December, after a sumptuous ceremony in the cathedral of Palermo, Vittorio Amedeo II and his wife Anna Maria of Orleans received the royal crown. At the Sicilian Parliament he expressed himself in this way during one of the first sessions: «Our thoughts are not directed to anything else but trying to take advantage of this Kingdom in order to put it back, according to the Grace of God, to the progress of the times, to bring it back to its ancient lustre and to the state to which it should aspire for the fertility of the soil, for the happiness of the climate, for the quality of the inhabitants and for the importance of its situation» in CARUTTI, *Storia del Regno di Vittorio Amedeo II*, Cap. XIX.

[58] MURPHY, *Economic Theorist and Policy-maker*, cit., p. 113 ss.

[59] L. DE ROUVROY, DUC DE *Mémoires complets et authentiques du duc de Saint-Simon sur le siècle de Louis XIV et la Règence*, t. v, Paris 1856, and S.M. BUSETTI, *John Law, vita funambolesca e temeraria di un genio della finanza*, Macerata 2020, pp. 41-43.

CHAPTER III

THIS IS HOW IT HAPPENED

SUMMARY: 1. A new international order. – 2. A 'financial revolution'. – 3. Accountability: selling the illusion and retaining a percentage. – 4. The vanity fair.

1. A NEW INTERNATIONAL ORDER

Following his stay in Turin, Law spent some time in London and then again in other European countries he had visited before. Finally, he returned to Turin, and then Paris, where he created his 'system' and a real 'financial revolution'.

He implemented a set of bold reforms for a France devastated by the long reign of Louis XIV. It was the only possible way for the economic rebirth of a deeply tried and tested country.

Law was dealing with the most populous state in Europe, with the heaviest debt. At that time, France had a population of 18 million and a debt of about 3.5 billion *livres*, including interest [1].

These were enormous sums that created a budgetary imbalance by committing the gains and revenues of 1716, 1717 and 1718. Expenditures exceeded revenues by 40–50 million *livres*.

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[1] Levasseur states a total amount of 3.460 billion (*Recherches Historiques sur le Système de Law*, *État des finances à la mort de Louis XIV*, Paris 1854, Ch. I, p. 12). François Velde, on the other hand, evaluated the total debt, in 1715, at 2819 million *livres*. This total derives from the sum of 1069 million in rent-in-perpetuity, 920 million in debt fluctuating at 4% and 830 million in *officiers* salaries (*Government equity and money: John Law's system in 1720 France*, cit., pp. 3-4). Lastly, BUAT, *John Law. La dette*, p. 60. Cfr., *supra*, Introduction, nt. 16.

They were mostly made up of paper money issued by ministers against loans which, at the end of 1715, had been converted into government bonds [2].

Disorder was at a maximum, as was discredit. Louis XIV, in short, had devoured 'the past, present and future' [3].

According to the Scottish thinker, it was therefore necessary to proceed using all available resources: through the reactivation of agriculture, use of manufacturing, and exploitation of the colonial empire. But above all, it was necessary to put public finance in order, which was burdened by a colossal state of inertia.

Faced with a British rival reinvigorated during the conflicts of the time, the Nine Years' War (1688–1697) and the War of the Spanish Succession (1701–1713), Law argued that France had little chance of following the same path [4].

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[2] A vivid representation of the 'kingdom of paper' created by Louis XIV, among ministers, copyists and employees is also offered by T. SARMANT-M. STOLL, *Régner et gouverner: Luois XIV et ses Ministres*, Paris 2010, and by M. STOLL, *Servir le Rois Soleil: Cluade Lepeletier (1631-1711), Ministre de Louis XIV*, cit.

[3] The last years of Louis XIV's life saw, in 1713, the repayment abroad, in strong currency, of the capital and interest that France had received in weak currency, and the discredit of public and private securities. The history of the financial institutions of this period made significant progress in the last years. For a useful reference in this regard, see: M. and R. BONNEY, *Jean-Roland Malet, premier historien des finances de la monarchies française*, cit.; HOFFMAN P.T.-POSTEL-VINAY G.-ROSENTHAL J.-L., *Des marchés sans prix: une économie politique du crédit à Paris, 1660-1870*, cit., which describe «l'appétit d'emprunt gargantuesque de Louis XIV» through the private credit reconstructed through the notary deeds authenticated in Paris during that period. The expression above refers to this person.

[4] The dependency on high finance had become increasingly stronger during Louis XIV's reign. When the wars were costing twice or three times more than normal, the recourse to the expedients became more frequent and significant. The highest number and most extravagant expedients were found during the War of the Spanish Succession between 1702 and 1704. According to Paul Harsin, in fact, «les dépenses publiques qui se situaient autour de 120 à 150 millions en 1700-1701 montèrent jusqu'à 264 millions en 1711 pour se tenir encore au-delà de 200 millions jusqu'en 1714. Les recettes ordinaires n'augmentèrent que faiblement pour retomber d'ailleurs aux chiffre d'avant-guerre avant la fin des hostilités. Il en résulta en recours aux 'moyens extraordinaires' pour près des deux tiers de la charge totale» (HARSIN, Le *doctrines monétaires en France du XVIe siècle au XVIIIe siècle*, cit., p. 271). It is clear that the massive appeal of extraordinary means could only weaken a system that was already distressed. See also L. BOUCHARD, *Système*

The world that emerged from the 1713 Treaty of Utrecht was one in which France seemed structurally disavantaged [5]. To tilt the balance of wealth back in favour of France, Law proposed the initiation of a financial revolution.

If the regent were to refuse the new financial system, France would be overwhelmed in its struggle for power; if it were to embrace it, the French monarchy would, on the contrary, dominate Europe.

Law's arguments eventually persuaded Orléans.

With his backing, the Scot founded a bank [6] in 1716 to issue paper money and, in 1717, a joint-stock enterprise on the model of Britain's South Sea Company to recolonise Louisiana and absorb part of the unfunded public debt. Two years later, Law went even further. Joining his first ventures with the *Compagnie des Indes*, a huge conglomerate, he established to exploit all colonial trade, he went on to consolidate the entire public debt by converting it into equity in the company.

The founding of Law's System, as it came to be known, is universally regarded as a landmark in the history of finance, but it should also be seen as a decisive moment in international history [7].

Law said that his reforms would transform relations between European states [8]. Throughout his sojourn in Paris, Law contrived to

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financier de l'ancienne monarchie, Paris 1891, pp. 205 ff.; DESSERT, *Argent, pouvoir et société au Grand Siècle*, cit., pp. 185-189.

[5] See *supra*, Cap. II, note 7.

[6] Law offered the bank as a tool for paying off public debt in 25 years.

[7] Most historians of the *System* are sensitive to aspects of Law's international agenda (C.F. LEVY, *Capitalistes et povuoir au siécle des limieres*, Paris 1969-1980).

[8] The diplomatic histories of this period are now quite dated. See L. WIESNER, *Le Régent, l'Abbé Dubois et les Anglais*, Paris 1890-1899; E. BOURGEOIS, *Le secret de Dubois: cardinal et premier ministre*, Paris 1910; B. WILLIMAS, *Stanhope*: *A study in Eighteenth-Century War Diplomacy*, Oxford 1932. More recent J. BLACK, *Natural and Necessary Enemies: Anglo-French Relations in the Eighteenth-Century*, Athens 1986; B. SIMMS, *The Victories and Defeat: The rise and fall of the First British Empire, 1714-1783*, London 2007; M. CESA, *Allies yet rivals: International Politics in 18Th Century Europe*, Stanford (CA), 2010, pp. 119-146.

shape French foreign policy. He promised to assure the same advantages to France and, in doing so, to unleash the kingdom's enormous economic potential.

Did he succeed? Did he achieve his purpose?

Deciding whether he was successful or not requires grappling with ambiguities in the Scot's thinking and with tensions between his ideas and his actions.

Law presented financial revolution as a means to establishing French preponderance in Europe. This would seem to be a scheme for the overthrow of the Utrecht order. However, he in fact stated the opposite.

He assured one admirer that his System «would have conserved the peace of Europe» [9].

In law, he treated trade and finance as weapons in the struggle between nations and wielded these arms for France's cause.

Law's actions and thinking were based on the importance of credit and money flow, which together would guarantee economic superiority over any state.

With his System, Law intended to imitate the British public credit model. The underpinning perception was that a state enjoyed good credit at the expense of its rivals directly because it had to compete for the same pool of international capital, or obliquely because the financial advancement of one undermined the relative power of the others.

Though Law was removed from his office in 1720, his ideas continued to exert a powerful appeal. Echoes of 1720 also reverberated in Franco-British competition for international capital, which culminated in attracting Dutch money away from London and into the French debt. Law argued that England's monetary stock was expanded both by the notes the Bank of England issued and by the shares it and other chartered companies sold to the public. Shares functioned as an adjunct to the money supply, serving both as a means to settle debts and as a store of value.

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[9] Bibliothèque Méjanes (BM), Aix-en-Provence, MS 614 (355), John Law to M. de Rosemberg, May 15, 1722.

Law argued that France would not need to compete in international trade and colonial competitions [10], but that it could be richer and more powerful than its rivals, and live in peace with them, exploiting its vast territorial and demographic resources.

The balance of evidence suggests that he envisioned the emergence of a new kind of international order, one in which empire and international trade would count for less, where reserves of labour and land, leveraged by a credit-based money supply, would underpin a new distribution of wealth and power. This would be a more peaceful order than Utrecht, one based on the benign supremacy of a state invulnerable to attack, yet with no interest in conquering its neighbours.

This is what Law proposed to the Regent [11]: let's see whether he managed to do it and, if so, how.

2. A 'FINANCIAL REVOLUTION'

Law's equivocal claims about the geopolitical future of the System and the tensions between his actions and his statements make it challenging to pin down exactly what the financier really believed.

French society at the beginning of the 18th century was a complex society, divided into orders, each with privileges according to a precise hierarchical scale.

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[10] Law argued to Orléans «The arbiter of Europe, without having to use the force». His bank must render King and the Kingdom of France master of all the power of Europe. See John Law *Projet d'une nouvelle forme d'asseoir les revenus du Roy (Apr. 1718)*, in HARSIN, *Œuvres complétes* cit., III, p. 31.

[11] On 1st September 1715 Louis XIV died. At this point the problem of succession also arose. As Louis of Anjou was younger, the son of the youngest brother of the deceased King, the Duke of Orleans, was confirmed as Regent, Filippo II. The latter dismissed Desmartes and appointed Saint-Simon, one of his most faithful followers, as General Controller of Finance; Saint-Simon refused and the cargo was offered to the Duke of Noailles. DE SAINT-SIMON L. DE ROUVROY, DUC DE, *Memorie* cit., pp. 11-12.

In this type of society, the possession of monetary wealth was a strategic weapon to ensure upward mobility, since France was not a country where social climbing was blocked [12].

This privilege was easily acquired with adequate amounts of money, and the aristocracy frequently renewed its forces thanks to this mechanism.

To increase the size of the money stock in such depressed [13] conditions, however, reforms were needed[14].

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[12] «On sait combien l'ancien régime en général, le règne de Louis XIV en particulier, sont attachés à la notion de dignité. La dignité élève la cour au -dessus de la ville, le duca u-dessus du marchand, le capitaine chevalier de Saint-Louis au-dessus de son camarade non décoré. La prioritè, reconnue par le roi aux grands chiens pour cerfs de M. le grand veneur, sur les chiens pour loups de M. le grand louvetier (1699), lorsque leurs voies se croisent, est une façon de confirmer la supériorité de la charge du premier de ces dignitaires» in F. BLUCHE-J.F. SOLNON, *La véritable hiérarchie sociale de l'ancienne France: le tarif de la premiere capitation (1695)*, Genève 1995, p. 41

[13] The first phase of monetary disorder that afflicted France was the ratio between gold and silver, which was supposed to remain variable and not fixed at 1-12 (i.e. each unit of gold corresponded to twelve units of silver). If this proportion was increased, it was gold to be attracted from abroad, otherwise silver. The foreign countries with proportions of 1-13 and 1-14 tended to take possession of gold, whereas France, with 1-12, silver (it is worth noting that this historical relationship came to an end when President Nixon declared the inconvertibility of the dollar and the abolition of gold parity in 1971). Another source of disorder was linked to the tender of foreign coins. The remedy was to give them value on the basis of the weight of the alloy that they contained. A third source of problems was caused by the deterioration of the metallic alloy eroded by the constant changes to the proportion between gold and silver and the increase in the percentage of copper. All of which was to procure some extraordinary income for the Princes.

[14] In the first half of the 17th century the French politician and cardinal Armand-Jean du Plessis, Duke of Richelieu, played a crucial role in restoring the prestige of France in Europe. He re-established the authority of the monarchy, quashing all the internal forces that compromised its unity, and implemented a daring foreign policy to strengthen his country. Born in Paris in 1585, as a young man Richelieu chose an ecclesiastical career with the aim of saving his family's wealth. Ordained as Bishop of Luçon in 1607, he held this office for six years before moving to Paris. In the capital his talents earned him the favour of the regent, Maria de' Medici, who supported his nomination as cardinal with the Pope, which he was granted in 1622. Under the reign of Louis XIV, Richelieu attained significant positions of power, which he held until his death, in 1642, becoming the arbitrator of French politics. He had to deal, in particular, with the problems of the war that was raging in central Europe (the Thirty Years' War, 1618-48), from which the European supremacy of the Habsburg dynasty grew, holders of the Spanish and Austrian

France's wealth was no longer just agricultural. Richelieu and Colbert [15] had fed industry and trade with various types of incentives

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crowns and emperors of the Sacred Roman Empire. To avoid this outcome, Richelieu strengthened the alliance with the Protestant powers (Protestantism), a choice that shocked the Pope and the Catholic powers. He balanced out this tendency in internal politics by restricting the freedom of religion from which the reformed minority, living in France, benefitted (the Huguenots, who were Calvanist). He laid seige to La Rochelle, a Huguenot stronghold on the Atlantic coast, and the city surrendered in October 1628 (P. SONNINO, *The Political Testament of Cardinal Richelieu*, Lanham 2020 and its bibliography.) Peasant and popular revolts that shook France starting in 1622-23 were also repressed with violence. Richelieu's huge military effort had repercussions on the living conditions of the French and on State debt, which rose to very high levels (P. BOUCHER, *The shaping of the French colonial empire: a bio-bibliography of the careers of Richelieu, Fouquet, and Colbert*, Routledge 2018). On the other hand, Richelieu implemented broad measures aimed at reinforcing the authority of the king and the administration of the State, which for the first time had a body of public administrators at its service. Richelieu also promoted the foundation of commercial companies, based on the Dutch model, to exploit the resources of the colonies owned by France in America. According to custom at the time, he did not hesitate to use the great power he had achieved to accumulate enormous personal wealth, publicly displayed by the hundreds of people at his service and his taste for grandeur and luxury. From the wealth of literature on Richelieu, only several essential indications are given here: G. D'AVENEL, *Richelieu et la monarchie absolue*, voll. 4, Parigi 1884 segg.; G. HANOTAUX, *Histoire du card. de Richelieu*, I: 1585-1614, Paris 1893; M. CARMONA, *Richelieu: l'ambition et le pouvoir*, Paris 1983, ID., *La France de Richelieu*, Paris 1984; R. MOUSNIER, *L'homme rouge: la vie du cardinal de Richelieu (1585-1642)*, Paris 1992 (réimpr. 1994); F. BLUCHE, *Richelieu*, Paris 2003; C.J. BURCKHARDT, *Richelieu: His Rise to Power*, Pickle 2017; C. CARNINO, *Political economy in early seventeenth-century political treatises: the Conseiller d'Estat (1632)*, *in History of European Ideas* (2020), pp. 1-16.

[15] Son of a rich cloth merchant, public administration official since 1643, his rapid career was due to Mazzarino who, after having employed him as his private administrator (1651, intendant from 1656), and as intermediary with the regent during the Fronde, recommended him when he was dying to Louis XIV. After having caused the fall of superintendent Fouquet, in 1661 Colbert was invited to be part of the Council of Finance, and then became general controller (1665), secretary of state for the royal family (1668) and then the navy (1669). In this way he controlled all the central administration of France, which he reorganised in a unitary and centralised sense, but in particular he was the initiator of a prudent economic policy (D. DESSERT, *Le Royaume de Monsieur Colbert (1661-1683)*, Paris 2007). Concerned, in fact, about ensuring a balanced budget, convinced of the close connection between finance and economy, he dedicated his efforts first and foremost to encouraging the creation and development of French industry, facilitating internal communications by abolishing tolls and building roads and canals, creating

and found a considerable source of tax revenue in these sectors. While the *taille*[16] was a tax on the countryside from which clergy and nobles still benefitted, it made the tax system inefficient.

Interest rates could be lowered, according to the Scottish banker, and under-utilised work and capital could be set in motion, thus stimulating prosperity.

Credit emerged as an alternative means of integrating the money supply. However, the need to finance the state in the presence of an

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a merchant navy and promoting French colonial development (support and facilities for the east and west *Compagnies des Indes*, Levante and Senegal). His work had wide and beneficial repercussions, even if partially compromised by belligerent policies of Louis XIV, and was called "colbertism", the type of economic policy that tended to protect national industry (P. MINARD, *La fortune du colbertisme: État et industrie dans la France des Lumières*, Paris 1998). On Colbert see, for example: P. CLEMENT, *Histoire de la vie et de l'administration de Colbert*, 2ª ed., voll. 2, Parigi 1874; ID., *Lettres, instructions et mémoires de Colbert*, voll. 5, Parigi 1861-1868; J. JACQUART, *Colbert*, in *L'État classique: regards sur la pensée politique de la France dans le second XVIIE siècle*, dans H. MECHOULAN-J. CORNETTE (dir.), Paris 1996, pp. 181-220; O. PASTRE, *La Méthode Colbert ou le patriotisme économique efficace*, Paris 2006; M.-L. LEGAY, *La banqueroute de l'État royal: la gestion des finances publiques de Colbert à la Révolution française*, Paris 2011. Furthermore, for more details see D. DESSERT, *Colbert ou le mythe de l'absolutisme*, Paris 2019; T. SARMANT-M. STOLL, *Le grand Colbert*, Tallandier 2019.

[16] This tax, created in 1439 to pay the state expenses of the *Hundred Years' War*, was, originally, taken from lords for their subjects In France, inequality formed part of the structure of the tax, not only vertically along the social scale, but also territorially. The size of the tax could take on two forms. In the districts of the *taille personnelle*, the tax was levied on the non-noble heads of households divided per collector. In the districts of the *taille réelle*, the tax was determined by the land registry that indicated the surface area and value of the lands of each community. A noble was taxed on his assets subject to feudal charges, whereas a commoner was exempt from it. Louis XIV, who was always on the hunt for new taxes then also created the capitation, the tax-per-head and the *dixième*. The first was based on the 'focus', i.e. the home around which the head of the household and his children would meet. The poor, the mendicant orders and those whose contribution did not reach 40 coins were exempt from it. Abolished in 1698, capitation returned in 1701. The *dixiéme* created in 1710 for the duration of the War of the Spanish Succession was fixed at 10% on all land, real estate and industrial income from positions and offices of the kingdom. It is clear from what has been stated up to now that the French tax system affected the wealth produced rather than the profits that originated from exchanges or income from investments. As a result, the French were induced to save rather than to invest. In this regard, see: M. MARION, *Histoire financière de la France depuis 1715*, Paris 1923, p. 531.

inadequate and unfair fiscal system had attracted a large part of the circulating money towards the purchase of offices and noble titles, favouring the block of the monetary flow and distorting wealth and its role.

It had in fact become a means at the service of the ancien régime system, instead of the market, multiplying the imbalance of the fiscal system, depressing the State and its own role on the international scene, as well as burdening it with continuous debts.

The resources from the tax authorities were used to pay the wages of the offices, the annuities on loans and the earnings from tax contracts [17].

As a consequence, the financial needs of the state resulted in the alienation of resources and public authorities.

This could not have gone on for much longer because this process had emptied not only the coffers of the country, but also the absolutism of the monarchy.

It was a weak absolutism, hostage of the money owners who only occasionally, with the *Chambres de justice* and thanks to the Visas [18], had seen speculation punished.

So, at least Law had already pointed this out in a careful *Mémoire pour prouver qu'une espèce de monnaye nouvelle peut être*

[17] In France taxation was heavy and recurrent. Each time there was a political and economic crisis, as well as a war, there was an increase in the financial needs of the State. And each time, each tax that was created as a transitional measure, became permanent. Therefore, in order to meet new needs, another one was invented. Direct taxation did not provide the most consistent revenue. The nobility, which possesed the majority of the lands from which they gained their income, paid the taxes with many abatements and opposed personal taxes. As a whole, taxes were seen as coercion which needed to be eluded using all means. In France agreement on taxes was not shared and it was difficult to increase them without provoking revolts like in the times of Richelieu. It is therefore easy to understand why the government's policy, faced with a budget deficit, was always in favour public debt and indirect taxation, rather than direct taxation. The taxable mass remained the Third State, which meant burdening all the weight of taxes on farmers, who often went bankrupt due to the difficulties. The most important tax was the various types of *taille* (*infra* nt. 15).

[18] This was a formal approach that hid a substantial weakness.

meilleure que l'or et l'argent [19] to Chamillart [20], after having met the Regent, Duke of Orleans, at the gaming tables [21] in times not yet suspect.

In particular, Law's objective was to insist on the importance of credit as a means of instilling investor confidence in the crown: the true foundation of a state's power, even if absolute. The creation of a credit institution was not the only idea he expressed (his tone in this case was almost like that of a showman).

It was, if anything, the first step of the plan, which envisaged the creation of a commercial company for the exploitation of overseas resources – considered by Law to be unexplored by France or, in any

[19] *Mémoire pour prouver qu'une espèce de monnaye nouvelle peut être meilleure que l'or et l'argent*, which was, in fact, anonymous (*Memoria per una nuova specie di moneta*), published by HARSIN (*Oeuvres complètes*, pp. 195-214) and filed in the *Archives Nationales*, in a manuscript of approx. 50 pages written in chancery hand, with the wording «*le Mémoire est de M. Law*» and dated 18 November (AN, $G^7$12). It is thought that this manuscript dates back to 1707. Divided into 4 parts it takes up old considerations about currency that belong to previous writings of Law. The need to apply its considerations to the unique French situation, whose system was compounded by the tax system, however sounds original. Its idea of the crucial role of a bank being closely connected to the actions of the Commercial Companies guaranteed their wealth through the profits of their activities and through a monopoly is the cornerstone of the work.

[20] Michel Chamillart (E. PÉNICAUT, *Michel Chamillart ministre et sécrétaire d'État de la guerre de Louis XIV*, Paris 2004) was considered by his contemporaries as one of the most incompetent controllers of Finance and Ministers of war in the history of France («ni politique, ni guerrier, ni homme de finances»). Posterity never rectified this opinion (see, for all these matters, BUAT, *John Law. La dette*, p. 71).

[21] The regency of Philip is also characterised by the ambiguous and obscure aspects of his private life. The nocturnal participation in long obscene parties, which was also attended by his daughter, the Marquise Du Berry, prevented him from being lucid during the day. Law won him over immediately. The Prince appreciated men of spirit and character. Law was only three years apart from the Regent, they both loved women, luxury and money. But above all the Scotsman promised to restore the coffers of the state. (MONTGOMERY HYDE, *John Law: the history of an honest adventurer*, cit., p. 96; A. DUPILET, *La Régence absolue: Philippe D'Orléans et la polysynodie*, Paris 2011; BUSETTI, *John Law*, cit., pp. 45-52).

case, not adequately used – immediately after the foundation of the bank [22].

France did not have the new poor created by the transformation of agriculture, like England, but it still suffered from hidden underemployment in its large urban centres: Paris first and foremost.

The motivation was to be found in the presence of very small landowners, holders only of the right to *propriété utile* and therefore heavily burdened – due to the tax privileges of the nobles and clergy – by land tax.

This was one of the reasons the nation produced luxury items mainly destined for consumption by the upper classes and for export, and from which it obtained metal money.

Currency in France had in fact become a rare commodity, and the cost of its use had also increased on many occasions when the state of Louis XIV needed it. Hence, the systematic increase in the interest rate for all – private individuals and the crown – and the massive recourse to debt.

At the end of the reign of the Roi Soleil, absolutism had become a very imperfect system. The sovereign, forced to make room for a real officier caste, who *prêter au roi l'argent du roi*, was under the control of those who used wealth for purposes unrelated to production [23].

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[22] *Lettre au Régent*, décembre 1715, in HARSIN, *Oeuvres complètes*, pp. 262-268. The text clearly explains how to introduce paper money, create a deposit and discount bank and set up a company to exploit the resources of the old and new colonies.

[23] On his death, Louis XIV, after having led the country to numerous successes, left behind a very serious financial crisis: liquidity was reduced to a minimum; securities had no value; there was no faith or hope of paying all, or part, of the financial obligations undertaken. France's debt exceeded 2 billion *livres*, which was, for the most part, incurred with around forty private bankers that controlled the collection of taxes. According to some, the debt amounted to a little less, to others, much more. PARIS-DUVERNEY speaks of one and a half billion *livres* (*Examen du livre intitulé réflexions politiques sur les finances et le commerce*, Le Haye 1740, pp. 104-145); Levasseur states a total of 3.46 billion (*Recherches Historiques sur le Système de Law, État des finances à la mort de Louis XIV*, cit., Ch. I, p. 12), and B.V. ZAMBELLI, a prominent tax expert of the Restoration who, reproposing the problem of the bankruptcies and great speculations of history, confirms these final balances by explicitly quoting John Law's calculations and his 'System' (*Proposta analitica di un insegnamento sul diritto commerciale, sul diritto di creditore, sul diritto marittimo privato, pubblico e internazionale degli stati*, voll. II, Milano

As the French tax system targeted the wealth produced instead of the profits from trade or investment income, the French were induced to save more than to invest, to evade taxes and to hoard (unproductive savings) [24]. This is the paradox that Law wanted to overcome.

The mechanism he used each time to cover his debts had become more and more intricate and complex than when Colbert arrived at the *Contrôle général*.

At the time of Colbert, the alliance between court nobility and finance was of interest to few people. In such a context, it was very easy to lighten the fiscal burden, to balance the budget and to restore the situation [25].

Upon the death of Louis XIV, on the other hand, two thirds of the resources barely covered the needs of the state's creditors in interest. Each time the debt was covered by incurring other debts, it caused a situation of permanent bankruptcy [26].

From 1684 to 1714, the balance sheets were in perpetual debt. The continuous monetary manipulations only discredited the state, without the monstrous figure of two billion *livres* really being affected.

1846, spec. Cap. XXIV, p. 14, but also refer to vol. III e IV, Cap. XXV, pp. 7-17). Lastly, BUAT, *John Law. La dette*, p. 60. Cfr., *supra*, nt. 1.

[24] According to Harsin, Colbert gave the best definition of public debt: "credit is the good opinion that one has of the state of the finances of your Majesty" (HARSIN, *Les Doctrines monétaires et financières en France du XVIe au XVIIIe siècle*, cit., p. 87).

[25] This is exactly what Colbert did between 1662 and 1683 to keep public debt under control. Despite his good intentions, however, his efforts were cancelled out by the Dutch war (1672-1678). For details about this war, see *Actes et mémoires de la paix de Nimègue*, Amsterdam 1680; IV; L. DE SAINT-DISDIER, *Histoire de la paix de Nimègue*, L'Aia 1697; J. DU MONT, *Corps universel diplomatique du droit des gens*, Amsterdam 1726-1731; VI; J.-Y. DE SAINT-PRIEST, *Histoire des traités de paix... du XVII*e *siècle*, voll. 2, Amsterdam 1725; H. VAST, *Les grands traités du règne de Louis XIV*, II, Parigi 1893-1899; P. SONNINO, *Louis XIV and the Origins of the Dutch War*, Cambridge 2003 (3ª ed.).

[26] «Le bilan du règne de Louis XIV se traduit à la fois par un gonflement de la dette publique, une accentuation de la fiscalitè, una aliénation de la puissance publique et une dépendance accentuée à l'égard de la haute finance», in HARSIN, *Les Doctrines monétaires et financières en France du XVIe au XVIIIe siècle*, cit., p. 271.

This was the situation in May 1715 when Law wrote a *Mémoire sur l'acquittement de la dette publique*.

This was a theoretical concept, expressed by Law, of fiduciary mercantilism, whose basic idea was that the enrichment of a country depended on the existence of a banking system that guaranteed monetary circulation capable of supporting commercial transactions and a regular market [27].

3. Accountability: selling the illusion and retaining a percentage

The first phase of the financial operation – in 1715 – therefore envisaged a government concession for the foundation of a bank [28]. This was the same premise, however, of the development of what had already been proposed to the Duke of Savoy in 1711 but never

[27] The bank, hence, would have absorbed the depreciated notes and issued new ones that would have had the guarantee of being accepted – in contrast to the case with the *billet d'état* – in the payment of taxes and being used for payments by the State. In his letter to Desmartes, which accompanied the proposal, Law explains how this participation of the king would make this bank the most secure institution, better than the bank of Amsterdam or the bank of England. The model of this institution develops the outline of the proposal made to Victor Amadeus II of Savoy. For its specific details, see chapter II.

[28] *Restablissement du commerce* (*Historie des finances pendant la Régence*, *in* Harsin, *Oeuvres complètes*, II, cit., pp. 67-259). He proposed that he would personally take on the costs of its creation, although this implied significant amounts, but in return wanted its full management, absorbed by a twenty-year privilege and the sale of a quarter of the company's profits, all under the control of an inspector appointed by the king. Law wrote many texts during this period and not all of their content is original. In this one he describes in detail the benefits that France would have gained from a different monetary policy and a different management of its commercial relations with Holland. By attributing a key role to the banking system in the cancellation of public debt, Law claimed that this project would not have burdened taxpayers and would not have required a financial commitment on the part of the State. In this regard, see L. Rothkrug, *Opposition to Louis XIV. The political and social origins of the French Enlightenment*, Princeton (New-Jersey), 1965.

implemented. There was only one more problem to solve: the conversion of public debt [29].

The project aimed to make the circulation of money more abundant and to restore confidence and credit, without weighing down taxpayers and without any commitment on the part of the state.

The issue of paper money could in fact take the place of the current coins – the *Louis d'or* and the silver shield [30] – in exchange for deposits in precious metals. Law himself would have borne the cost of its entire creation, claiming its 'management' with a 20-year privilege and the sale of a quarter of the company's profits.

With 7 million *livres*, Law declared that he would be able to pay 5% annual interest on the 100 million *livres* of the *Caisse d'emprunts* [31] debt: all in 25 years.

It was a way to show that banks could be as good for the monarchies as they had always been for the republics.

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[29] Hence, more serious and restrictive measures were taken, starting with the Chambre de justice. This was not the first time, but rather a recurring practice. When public finances were in trouble, an attempt was made to make those that had speculated to 'regurgitate' a part of the profits gained on the shoulders of the State through a summary legal procedure that provided for confiscation, fines and even capital punishment. The 1716 Chamber was opened at the Grands-Augustins convent and was preceded by the imprisonment of several large financiers like Bourvalais and Myot de Ravannes, and with continuous calls for public denunciation. The result was carnage: 6000 complaints, against more than 4000 rulings and approximately 220 million livres recovered, but with the actual collection of only 70%, i.e. around 84 billion today. For more details on all these matters, PÂRIS-DUVERNEY, *Examen du livre intitulé réflexions politiques sur les finances*, cit., pp. 124 ff. and pp. 136 ff. Philippe d'Orléans took advantage of this to bring Law's so-called 'System' to the table See COVA, *Banchieri e banche nell'Europa moderna e contemporanea: Giovanni Antonio Zerbi e John Law*, cit., p. 58.

[30] An edict from December 1715 brought the *Louis d'or* from 8.16 grams to 6.12 grams. This new coin was called *Louis de Noailles* (M.G. ANTONETTI, *Da Louis a l'assignat*? *D'or et d'argent: la monnaise en France du Moyen Agen. Ou la monnaie en France du Moyen Age à nous jours*, cit.) and was considered the first transaction of the regency that favoured commerce.

[31] This is the name attributed to a public fund set up in 1673 by Jean-Baptiste Colbert in each of the *fermes* of the Kingdom. Cfr. F.V. DUVERGER DE FORBONNAIS, *Recherches et considérations sur les finances de France*, Bâle 1758, To. IV, p. 304; PH. SAGNAC, *Le crédit de l'État et les banquiers à la fin du XVIIe et au commencement du XVIIIe siècle*, in *Revue d'histoire moderne et contemporaine*, 10/4 (1908), pp. 257-272.

Initially, to be honest, the banking institution did not arouse much interest and started off almost unnoticed.

But soon Law's thesis convinced the regent and then the much more sceptical Duke of Noailles [32], and finally the *Conseil de Finances* [33].

This happened despite the overall negative opinion – eight votes against, compared to four votes in favour and one abstention – of the *Conseil Extraordinaire*, which convened on 24 October [34] and included experts from the world of finance and commerce.

A series of writings that Law himself had sent to the regent in December 1715 [35] helped his plans.

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[32] When the Roi Soleil died, so Philippe appointed the Duke of Noailles as head of finance, who found himself facing a desperate economic situation and reacted with restrictive measures that were as ineffective as they were stringent. The first attempt that was made was the recasting of coins, through which the Treasury, by withdrawing the metal coins in circulation, returned them with a lower intrinsic content (but around three hundred million were sent abroad this way) and the operation failed. Noailles only managed to increase prices and reduce the purchasing power of money. Baut his policy failed in any way to revitalise the economy. (F. FORBONNAIS, *Recherches et considerations sur les finances de France depuis l'année 1595 jusqu'à l'année 1721*, Paris 1728, spec. *Vue générale du Système de M. Law*, B.M. HAUT CHAMP (DU), *Histoire du Système des Finances sous la minorité de Louis XV pendant les années 1719 et 1720 – Précédé d'un abrégé de la vie du duc Régent et du Sr. Law*, La Haye 1739 e, da ultimo, J.-M. THIVEAUD, *Le mercantilisme au XVIIe siècle: Les banques et les billets de monnaie sous la Régence*, in *Revue d'économie financière*, 50 (1998), pp. 29-53, and esp. 37 ff.).

[33] In addition to the members of the Ordinary Council, consisting of the Regent, marshal Villeroy, Head of the Finance Council and the Duke of Noialles, Chairman, the marquis of Effiat, Deputy Chairman, plus eight councillors and two secretaries, there was: Pelletier, d'Aguesseau, prosecutor-general, Le Blanc and de Saint-Contest, State council secretaries, Amelot, Bignon, head of the Corporation of Merchants and d'Argenson, State councillor.

[34] To be precise, on 24 October 1715, the Council of Regency rejected Law's proposal, and this happened despite the Regent himself being in favour of Law. (WOOD, *Memoirs of the Life of John Law of Lauriston*, cit., p. 25). The bank designed by Law was rejected probably because the State should have taken the risk. This is how Law returned to the idea of a private bank, subsidised by capital raised from the public and by Law himself.

[35] *Mémoire sur les banques*, December 1715. In the letter sent to the Regent, Law returns to several considerations already expressed in *Money and Trade*, and in particular, he insists on the importance of credit as a means of earning the trust of investors in the Crown, a true foundation of the power of the State, even if it was an absolute State, if not, *a fortiori* (here his tone is almost like that of a show-

With the appropriate modifications [36], therefore, the bank opened its doors on 2 May 1716. It was not a state bank but rather a private bank, subject to the supervision of the Finance Council [37].

This was a strategic decision which confirmed the regent's intention to impose himself on the Council and to grant Law the longed-for letters of approval [38].

Law writes:

«Je ne demande point de confiance, ny de la caisse générale ny particulière. J'entreprends l'affaire à mes fraix, de sorte que l'estat ne risque rien de la mettre en exécution» [39].

Parliament asked for Law to be naturalised in France. Law agreed to make his loyalty to France official and thus became the bank's general manager.

In order to obtain greater credit and firmer trust, our Scotsman even foresaw the adoption (for the first time in the history of representative coins) of the so-called 'bank shields', on the basis of the system that would subsequently be called the 'gold standard' [40].

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man). The Scottish economist states the benefits that banks and credit could offer the nation and the State. He explained it as if banks would offer an advantage similar to the one enjoyed by Spain when it discovered the Indies, but much greater («si l'Espagne avoit cédé les Indes aux Anglois, cette nation n'auroit pas tant profité de ce commerce qu'elle a profité de son creditt» in HARSIN, *Historie des finances pendant la Régence*, *in Oeuvres complètes*, II, cit., p. 263. The minutes of the meeting were published by Levasseur (*Recherches Historiques sur le Système de Law*, *État des finances à la mort de Louis XIV*, cit., pp. 39-48).

[36] On 1 May 1716 the Council met to examine the Law proposal, but the Duke had already assured that there would be no problems. The Banque Générale would have only banking functions and the form of a private joint-stock company, a capital of 6 million divided into 1200 shares. ¾ of this sum, however, was payable in State tickets at the lowest market rate, which reduced the actual capital to 3 million 300 lire.

[37] «no other Keynesian had this opportunity», *La formazione e lo sviluppo del sistema bancario in Europa e in Italia*, (by) A.M. GALLI, (and quoted here), Milan 1992, p. 139.

[38] The patent letters allow Law to register 1200 shares for 1000 shields each on 4 May (6 million *livres*). Cfr. C.H. DUTOT, *Histoire du Systeme de John Law (1716-1720). Publication intégrale du manuscrit inédit de Poitiers établie et introduite par Antoin E. Murphy*, 2000, pp. 34-35.

[39] *Mémoire sur le banques, décembre 1715*, in HARSIN, *Oeuvres complètes*, pp. 269-315, spec. p. 286.

[40] With the decree of 8 July 1719, the bank shield banknote was abolished.

This concerned a 20-year privilege to operate on the basis of coins that, because they were always of the same weight and the same title, would not be subject to variations.

Law's banknote was born, therefore, under the best auspices and with the best credentials, and so too was his credit institution (*Banque Générale*) [41].

This is how the bank opened its doors at the beginning of June.

However, compared to his first writings, Law's ideas had in fact become clearer.

The bank, as already specified for the Turin project, would not only exercise a deposit function but also a discount function, i.e. the issue of banknotes of different denominations whose falsification would be almost impossible. The gist of the matter was in fact to guarantee all the necessary liquidity.

The value had to be nominal and unchangeable, guaranteed by the sovereign seal [42].

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[41] LONGHITANO, *Teoria e pratica della moneta*, in appendice *Considerazioni sulla moneta e il commercio. Con un progetto per fornire moneta alla nazione (1705)*, cit., pp. 49 ff.

[42] «[La Banque] livrait ses billets contre de l'argent, et dès, qu'ils lui étaient représentés, elle en acquittait aussitôt la valeur en espèces. Point d'echéances, point de paiements à terme: le possesseur de son papier pouvait, quand il le voulait, recevoir en métaux les valeurs dont il avait le signe; il n'avait qu'à le porter à la caisse dont les fonds devaient à tout instant pouvoir suffire à toutes les demandes. C'etait le fondement de son crédit et la condition qui devait en perpétuer la durée. Une partie du capital était cependant distraite pour d'autres usages; si tout commerce, tout prêt, tout emploi aventureux de soon argent lui était rigoureusement interdit, elle avait le moyen de multiplier les bénéfices de ses actionnaires en avançant des fonds auxcommerçants et en escomptant leurs lettres de change: double avantage qui profitait à la fois au prêteur et à l'obligé, à la banque et au négoce, enrichi d'un numéraire plus abondant; et qui pourtant était sans danger tant que les administrateurs contiendraient ces avances dans les limites d'une sage prudence. La banque se chargeait encore de la caisse des particuliers, de leur recette comme de leur dépense, et s'angageait à faire, à leur choix, les paiements en argent comptant ou par virements de parties, moyennant le faible droit de sous par mille ècus. Tout son mécanisme consistait dans l'alliance de ces trois opérations: mécanisme simple et dont le succès était certain. Mais ce qui devait rendre bien plus grande encore la faveur dont elle jouirait en France et à l'étranger, c'était la condition de faire tous ses comptes en écus de banque. La valeur des monnaies avait tant de fois varié et variait encore que nul n'y avait confiance», in *Recherches Historiques sur le Système de Law*, *État des finances à la mort de Louis XIV*, cit., pp. 45-46.

Only in this way would France's fate be revived.

With this operation, Law aimed to create an image of stability for the paper banknote that was almost superior to that of the devalued metal coin:

«comme argent dans tous le bureaux de recettes, fermes et autres revenus da sa majesté, pour le payement de toutes espèces de droits et d'impositions» [43].

Law wanted to demonstrate that all exchange instruments acquire value precisely because of their monetary function. Furthermore, they have an additional value if they are already appreciated as a commodity in themselves.

The banknote therefore does not need to be fully covered by a metal reserve, as long as it has the confidence of the public that it will continue to be accepted as currency.

The wealth and power of a nation are in fact determined by having a large population and warehouses loaded with foreign and domestic goods.

Currency is not neutral at all.

Its increase in quantity, if well used, favours exchanges and the increase of production. . «If the work increases – Law said, – they will come from neighbouring countries to find work with us» [44].

Therefore, on the one hand, there was the need for a large quantity of cash and, on the other hand, there was the importance of an economic policy that kept a large quantity in circulation.

Hence, the quantity of money in circulation played an important role in prosperity. The wealth produced by the number of workers employed increased as a function of the mass of liquid capital available.

The banknote thus entered into commercial operations, albeit on tiptoe, while Law showed a remarkable capacity to interpret the psychology of the public, ensuring the constant convertibility of paper money.

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[43] DU TOT, *Histoire du Systeme*, cit., p. 37.

[44] He states that the reason for relatively inactive trade and a weak level of employment lies in the monetary mass being too weak. (Here Law associates the increase in population with the increase in metal reserves), (LAW, *Consideration sur le numéraire et le commerce*, cit., p. 449).

The first people to receive the tickets in payment would hasten to exchange them for money. Only later would they realise their virtual waste of time.

In any case, Law's bank was still a modest institution at that time, although it enjoyed considerable privileges.

The fixed capital of 6 million *livres* was only partially raised.

The capital raised was lower than initially foreseen (6 million *livres*) because only 1/4 of the shares were actually acquired with deposits in currency; the rest could be paid with state aid which was worth 40% less than their nominal value. In this way, the devalued securities of Louis XIV had been removed from the market, but the actual capital of the bank ended up being just over 800,000 *livres* (the real means were 825,000 *livres*).

Law then decided to resort to advertising: no one before him had ever done so. He had the regent deposit one million lire, causing great uproar and becoming the first testimonial of the bank and its founder. Exempt from all taxes, the sums that it would manage were not subject to the *droit d'aubaine*[45], to which foreigners were still subject.

In short, now that he had set up an issuing bank, Law could finally think of a commercial enterprise[46].

And in 1717 the right opportunity presented itself – and so the bank issued banknotes for a value of 148 million *livres* between 1716 and 1718.

Let's see how it happened.

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[45] This consisted of the right of succession of the French state property office in the case where a foreigner died in France without having disposed of his/her assets or without heirs in his/her country.

[46] One morning a group of bankers showed up to collect the sum of 5 million livres in banknotes. They knew that the bank did not have them in the vaults. Law took 24 hours, granted by the Regulations, to collect the sum and spoke with the Regent. The bank was already on the verge of bankruptcy. Noailles ordered that the sum be temporarily withdrawn from the State Treasury. On the day set for the retreat the show went on stage: stacks of gold and silver coins were found on the coffers, in a sort of modern Cave of Ali Baba. Dozens of valets with gold boxes were paraded to the carriages of the requesting bankers who, in spite of themselves, had to reverse. Dozens of valets with gold boxes were paraded to the carriages of the requesting bankers who, in spite of themselves, had to reverse. At the end of the year the bank paid 7% on deposits. Law had won the battle, but not the war.

The old *Mississippi Company*, which the financier Crozat had had to give up because of the Chamber of Justice's condemnation, became available on the market [47].

The company, suitably transformed under the name *Compagnie d'Occident*, should have been at the origin of the financial revolution that Law had been thinking about for some time and should have been the basis from which to start the System [48].

It had obtained an attractive monopoly on skins from Canada, and the entire Louisiana territory, which the great Mississippi River ran through.

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[47] France had never profited from its colonial adventures, unlike other countries. For the most part, it sub-contracted the sporadic exploitation of its overseas lands to private investors. France owned Louisiana, an enormous region comprising the state of the same name, plus Mississippi, Arkansas, Missourim Illinois, Iowa, Wisconsin, Minnesota and part of Canada. The wealth of those huge stretches of lands was unknown, much larger than the homeland, and it was easy to pitch them as an amazing Eldorado. John Law took advantage of a stroke of luck. One of the largest businessmen in Louisiana, the Parisian financier Robert Crozat, was discovered to be in debt to the Crown, and decided reluctantly to sell the Mississippi concession to pay part of his debts to the treasury. John Law embarked on his work to persuade Philippe d'Orléans. The American colony had yielded so little up to that time because no one had incorporated it into a great vision and because not enough capital had been invested in order to gain any potential profit from it. See P. KAEPPELIN, *La Louisiane sous la Compagnie des Indes (1717-1731)*, Paris 1908; M. GIRAUD, *La Compagnie d'Occident (1717-1718)*, in *Revue historique*, 226/1 (1961), pp. 23-56, W.N. GOETZMANN-K.G. ROUWENHORS, *The Origins of Value: The Financial Innovations that Created Modern Capital*, Oxford-New York 2005, p. 231; C. CLARCKS, *Savage Lands*, London 2010, p. 372.

[48] On 6 September 1717 the Parliament registered the edict that formed the Company with a capital of 100 million. The company was granted a monopoly on trade in the eastern seas.

The Company was used for a series of transactions aimed at remedying the debt situation, withdrawing a large quantity of devalued banknotes and attempting to stabilise those that remained in circulation. The subscription of shares was not easy. Law had to intervene with 6 million from his own funds (increased then to 10) and ask the Regent for investment (40 million) to compensate the disinterest shown initially by the general public, uncertain about changing a guaranteed share of the Hotel de Ville with a share in an under-funded company. «Avec de tels fondements, la Compagnie d'Occident ebuta donc comme une spéculation pure» in LÜTHY, *La Banque protestante en France, de la révocation de l'Eit e Nantes à la Révolution*, cit., pp. 310-311. Cfr. P. HARSIN, *La création de la Compagnie D'occident (1717). Contribution a l'histoire du système de Law*, in *Revue d'histoire économique et sociale* (1956), pp. 7-42, esp. pp. 21 ff.

John Law wanted the company to make France the most powerful nation in the world. On 6 September 1717, the parliament recorded the royal edict that transformed Crozat's company into *Compagnie d'Occident* with a capital of 100 million *livres* (even though the real value of the capital was lower, and only 1/3 of the nominal amount was paid for)[49].

To reach the capital share, Law put about 200,000 shares on the market. He would sell them in exchange for public debt securities; but the company would charge a lower interest rate to the crown. Investors would get rid of devalued securities in exchange for shares, while the proceeds would have to finance overseas expeditions to exploit the colonies.

The company had become a creditor to the state of a sum of 100 million *livres* at a rate of 4% per annum. The problem was that the 4 million *livres* in annuities produced were totally insufficient for the company's commercial purposes. Law did not give up and made a new advertising launch: the payment of the shares in five instalments and the possibility of reselling them only after having paid the first one. Dare accepted! Delirium broke out and the shares reached their highest point: a dividend of 200 *livres* was guaranteed on shares bought at 550, when in reality the debt securities used as currency were worth only 100.

1718 was the year of the turning point.

Law had to fear for his own life[50]: he was in danger, but the regent took to his defence and organised a *lit de justice*[51].

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[49] The Company's capital was in shares of 500 livres, paid with interest at 4% per annum. The shareholders would also have the profits on the dividends of the colonial company (*Financier Law his Scheme and his time*, Ch. IV, *The Royal Bank*, p. 60.)

[50] On 12 August 1718, with an edict of Parliament, a ban on public affairs was passed for all foreigners, including those who had acquired citizenship.

[51] The *Lit de Justice*, or Bed of Justice, was the exceptional session of the Parliament, presided over by the King of France, in which the latter could overcome the opposition of the Parliament itself to a legislative or normative act, imposing its registration and therefore its validity with the use of its absolute power. 26 August 1718 The Duke of Olréans lowered the Duke of Maine to the simple rank of Duke and equal of France (in this way he was out of the line of succession to the Throne). The superintendence of the King's education was confided to the Duke of Bourbon, taking it away from the Duke of Maine.

On 26 August 1718, the Duke of Orléans lowered the Duke of Maine to the simple rank of Duke and equal of France (in this way he was out of the line of succession to the throne). The superintendence of the king's education was entrusted to the Duke of Bourbon, taking it away from the Duke of Maine. But the most important thing was related to the *Banque Générale*: the private bank from that moment on became the *Royale*. Law would be the director, but the issuance of banknotes would be under exclusive control of the crown [52].

On 4 December 1718, an edict transformed the *Banque Générale* into the *Banque Royale* following its purchase by the state [53], which became the owner of the fund, with the regent as governor and Law himself as director general.

The treasury reimbursed the shareholders, giving them back the 6 million *livres* in capital [54]. The first phase of the experiment was a complete success and the public's favour, curiously enough, was poured into the banknotes established by the new Director of Finance d'Argenson [55] as the only legal currency.

Law had made an unexpected profit (a good 535%) [56].

In short, the issue of banknotes on a grand scale followed: the first for a value of 59 million *livres* and the second for a value of 110 million *livres*.

Meanwhile, it was established that all payments above a certain amount had to be made in gold or paper money, but never in silver. This was practically forced circulation [57].

It was April 1719. But the most serious fact was that Law betrayed his own principles: the countervalue of the currency from that

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[52] Only Saint-Simon was perplexed, fearing an uncontrolled issue of paper money that Law had always kept at breakeven, with at least 25% of the metal coin reserves held in the vaults.

[53] *Financier Law his Scheme and his time*, Ch. IV, *The Royal Bank*, pp. 61 ff.

[54] They were settled at 5000 livres per share, with an annual gain of 64%.

[55] New Director of Finance d'Argenson.

[56] A.E. MURPHY, *Economic Theorist and Policymaker*, Oxford 2007, pp. 216 ff.

[57] J.S. NICHOLSON, *Trattato sulla moneta*, Turin 1905, p. 423.

moment on would be variable. This put an end to the guarantee of monetary stability of the nominal value given at the time of issue [58].

In short, a cornerstone of the System was abandoned: that is, that the intrinsic value of banknotes was immutable [59].

Meanwhile, the edict of 26 May 1719 guaranteed the *Compagnie d'Occident*, granting it the exclusive privilege of trade with the East Indies, China, the South Seas and all the possessions of the French East India Company, established by Colbert.

And the company even changed its name to *Compagnie des Indes* [60]. It was immediately put on the market with the issue of 50,000 shares with a nominal value of 500 *livres*, which were called *filles* to distinguish them from the previous ones called *mères*. The new shares could be bought with metallic money, unlike the *mères* that had been bought with government bonds.

The mechanism was ingenious, and quite complex.

The risk was obvious. If one of the gears had been delayed in coming into play, or had broken, trust would have been lost and credit would have been compromised.

Once the French colonial companies were merged into a single company, a real market of premium contracts concluded with the public was launched [61].

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[58] In case of devaluation the value of the banknotes would be changed at the same time as the value of the coins, because they would be paid both in current coins (*livres tournois*) – continuously subject to changes in value by the government – and in bank currency (*ecùs de banque*).

[59] LONGHITANO, *John Law teoria e pratica della Moneta*, cit., pp. 15-16.

[60] From this function was born a gigantic monopoly with an immense capital and boundless prospects for trade in the then known world.

[61] The literature of the subject of the French *Compagnie des Indes* is extremely vast. Reference is to be made to the studies conducted mainly by Philippe Haudrère. In this regard, see: HAUDRERE-LE BOUËDEC, avec la participation de MEZIN, *Les Compagnies des Indes*, cit.; HAUDRERE, *La compagnie française des Indes au XVIIIe siècle*, II voll., cit.; ID., *Les compagnies des indes orientales: trois siècles de rencontre entre Orientaux et Occidentaux, 1600-1858*, cit., and, lastly, ID., *Les Français dans l'océan Indien (XVIIe-XIXe siècle)*, Rennes 2014; for the British company with the same name, reference is to be made to the recent volume by S. GIALDRONI, *East India Company: una storia giuridica (1600-1708)*, Bologna 2011 and the bibliography cited therein. Finally, an overall reference to the colonial Companies is found in F. GALGANO, *Lex mercatoria*, Bologna 2010[5], pp. 61-67.

The *premium*, 'dont', became the means to limit speculation, because those who paid it already knew at the time of the conclusion of the contract what the *maximum* loss to which they were exposed would be. As a good player, Law himself had entered the market, thereby exposing himself for a considerable sum.

In fact, he had taken on a dont of 2.5 million *livres* on the nominal value of the shares, pledging to buy 50% of the entire issue with a total investment of 25 million.

A handsome sum! Undoubtedly! But the advertising return on this ad was just as immediate, and the share prices had literally gone from 160 to 630 *livres* [62].

Guaranteed success.

The old shares (*meres*) became very sought-after, and to have new ones (*filles*), it was necessary to have four of the previous ones.

The reduction in supply had increased demand.

With the issue of banknotes [63], Law offered the possibility of achieving considerable added value.

In the summer, 400 million banknotes were issued, while Law undertook to pay a 12% dividend to the company's shareholders [64].

Paris plunged into speculative madness, and while the festive climate animated the streets, no one wondered about the real foundation of those fabulous gains [65].

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[62] In July the filles were quoted 1000 livres and in September five times more.

[63] Since the price of the shares in the *Compagnie d'Occident* was still below the issue price in May 1719 and capital remained limited, Law, who needed new capital, had the opportunity, with the edict of 26 May, to fund the French East Indies Company established by Colbert and the *Compagnie de la Chine* with the *Compagnie d'Occident*. Cfr. HARSIN, *La création de la Compagnie D'occident (1717). Contribution a l'histoire du système de Law*, cit., pp. 7-42.

[64] Edict of 26 July 1719.

[65] Things went too fast and share prices did not stop rising. Questionable exchanges multiplied. A specific problem was the forward contracts, namely those in which the investor agreed the price of the shares and made an advance payment to receive the shares on a future date (MACKAY, *Memoirs of Extraordinary Popular Delusions*, cit., pp. 25-82).

It was on that very occasion that the term 'millionaire' was coined to define the new shareholders, *Mississipiens or Mississipians* [66] and their huge profits [67].

4. The vanity fair

At this point, the third phase of the 'System' was implemented, in which Law could count on implementing the theories supported in *Money and Trade*, i.e. to use the bank to increase the volume of circulating money. The surplus cash would be used to buy and finance the company's activities, but above all to pay the state's debts.

The value of the company would be sustained by the increase in the money supply itself.

The company's situation on 30 December 1719 was truly brilliant. Its funds were constantly increasing. The exploitation of the colonies in India and Senegal was beginning to bear fruit.

The company had been entrusted with the slave trade, while Law had reached the peak of his power.

One obstacle was his religion, but the regent had promised that if he joined the Catholic religion publicly, he would be appointed as Controller General of Finance in return [68].

It was at this point that Law made a wrong move: taking on the settlement of the public debt, albeit indirectly [69]. Offering the unlimited possibility to buy shares, he hoped to reach the futures market, fed mainly by the British.

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[66] *Financier Law his Scheme and his time*, Ch. V, *The Golden Age*, p. 90.

[67] Paris-Duvernay, *Examen du livre intitulé réflexions politiques sur les finances et le commerce*, vol. I, p. 240 ss.

[68] The office, during Colbert's time, was temproarily abolished, and then replaced with the Presidency of the Council of Finance and held by the Duke of Noialles and finally by the Marquis d'Argensen. Law – by 8 January 1720 – was making enemies for sure, but he had also become the first and most influential Minister of France (Murphy, *John Law économiste et homme d'État*, cit., p. 282).

[69] At the end of July Law decided, wrongly, to buy the rights of the Royal Mint (50 million livres) which Law financed with a third issue (petit filles) of shares on which he imposed new restrictions on the purchase. the basic idea had to be that

He was convinced that the shares would not go further.

Instead, the effect of the launch of the primes was the opposite of what Law was counting on [70].

As the value of the shares increased, so did the demand for them in a sort of perpetual circle that led everyone – aristocrats and plebeians alike – towards a frantic delirious rush to purchase. Never had so much money been seen circulating! The speculative madness shook Paris throughout the summer of 1719 [71]. So it was that on 17 September 1719, the company headquarters, first in Law's house, were moved to Rue Quincampoix [72].

At this point, Law could have cashed in the money collected with the primes, but he did not; on the contrary, he promised the shareholders a dividend of 40% for the year 1720.

Could he have done this?

Perhaps it would have been more appropriate to suggest to Law to exercise a certain degree of prudence and accumulate the sums for a certain period before proceeding with the distribution of the dividends. Louisiana's development required heavy investment, with returns that were still far off.

Unfortunately, healthy and prudent speculation on securities had been combined with speculation that, without specific expertise, had been reduced to a kind of game.

This was because the Paris Stock Exchange market was created by chance in the Rue Quincompoix, and completely without rules other than those imported from abroad by Law himself.

And so the investors rushed to sell *meres*, *filles* and *petit filles*, causing them to collapse. Law was therefore forced to personally

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the reduction of supply increases demand and so it was. And the price actually went up.

[70] On 31 August the Company became the government's sole creditor and to pay off the millions in government debt, a further series of shares (five cents) was launched with an annual dividend of 3%. So they were literally sold out.

[71] WOOD, *Memoirs of the Life of John Law of Lauriston. Including a Detailed Account of the Rise, Progress, and Termination of the Mississippi System*, cit., pp. 65-66.

[72] The widespread enthusiasm is described by DE SAINT-SIMON L. DE ROUVROY, DUC DE, *Mémoires complets et authentiques du duc de Saint-Simon sur le siècle de Louis XIV et la Règence*, trad. it., pp. 490.

disburse huge sums to rake in the shares in order to stem the collapse of their demand.

Could he pay the over 80 million *livres*?

Such was the sum.

Law's success seemed unstoppable [73], but danger lurked behind his operations.

Until then, the French market had concentrated on the exchange of public effects, while the Dutch and English markets had become accustomed to the stock market regime and had a consolidated experience of speculative phenomena.

In many places, the prevailing winds were blowing in the opposite direction, and Law should have demanded the return of the loans and understood which way the wind was blowing, dividing the fate of the banknotes and that of the shares.

The company and the bank would have been saved, and the System would have survived the storm.

But Law lacked the courage to act.

One of the main objectives he set out to achieve through the *Banque* was to lower interest rates and reduce usury. France's exit from the crisis took up a good part of the 30 months following the creation of the bank. And becoming General Controller of Finance (5 January 1720) certainly did not put a brake on the appetites of this reckless financier.

The System was fuelled by the interaction between the expectations of growth in Louisiana's economic potential and the availability of paper banknotes issued and used exclusively to buy shares. In other words, as long as money was injected, the otherwise vicious circle remained virtuous.

But when Law – irrevocably determined to lower rates and accentuate the policy of credit expansion – gave rise to an excessive issuance of banknotes, he was, despite himself, the cause of a major price increase.

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[73] In the meantime, he received many public awards for her merits and the cancellation of her murder conviction. But above all, he invested in real estate including more than half of today's Place Vendôme and the Palais Mazarin. (WOOD, *Memoirs of the Life of John Law of Lauriston. Including a Detailed Account of the Rise, Progress, and Termination of the Mississippi System*, cit., p. 85.

In one month, there was an increase of 25%, and in four years 88%. This was the typical demand inflation created by an excessive amount of money in circulation.

What if the repayments had suddenly stopped?

Overseas activities had proved a failure, and the strength of the shares depended solely on public confidence: the creation of paper money and fundraising with the shares could also generate real returns justifying the value of the company's shares, but trading with the colonies took time and money. Instead, the conditions were being prepared for the bursting of a huge speculative bubble [74].

The company had obtained a 50-year extension of all its benefits and the authorisation to issue new shares at a very high price, but the commitment to lend the treasury 1200 million *livres* at only 3% to reduce its debt exposure to third parties [75] was a real noose around his neck.

Masses of beggars were recruited to stage the departure to the new world, but the deception did not hold [76].

The most critical speculators realised that the euphoria had reached its peak and that it was time to close the cycle by reselling the shares in their possession, making an enormous profit. The press had fuelled all the prodigies and, as a consequence, the number of banknotes in circulation had blown out of all proportion [77].

Law had lost control and inflation had taken over.

Confident in his role, he thus had to resort to the violence of the law and the imposition of norms, as did all the other ministers before him, but without gain [78].

The share price fell by 4000 *livres* in a single week. Everyone began to sell short – and when they realised there were no funds to recover the money invested, panic broke out. From one day to the next the money put into circulation turned into wastepaper.

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[74] GLEESON, *The Moneymaker*, cit., pp. 171-172.

[75] PARIS-DUVERNAY, *Examen du livre intitulé réflexions politiques sur les finances et le commerce*, vol. I, p. 250.

[76] *Financier Law his Scheme and his time*, Ch. VI, *The bandoliers of Mississippi*, p. 130.

[77] The banknotes printed as of 1 May were 1720 were 2.6 billion, while coins in the Kingdom were worth around 1.3 billion. Half of them.

[78] *Ibidem*, p. 119.

The decrees began to rain down continuously. To curb the avalanche, the treasurer resorted to the power of the state: a series of measures were issued which were not always consistent with each other, imposed on investors who would otherwise be reluctant to obey those 'universal' laws of the market which were proving to be so devoid of binding force as to remain unheeded [79].

On 28 January 1720, a general rearrangement of all financial matters was carried out through the devaluation of coins and the conferring, by contrast, of a higher value to paper money [80].

On 24 February, a ban was introduced on the transport of gold and silver outside Paris under penalty of confiscation. Furthermore, access was granted to all places by members of the company to check compliance with the aforementioned provisions. Finally, there was a ban on the purchase of goods of refuge, even specifying the maximum weight of each gold ornament. In the meantime, the king ceded control of the bank to the company, while remaining its guarantor.

These rules improved the situation, but only in the short term. Law seemed to have understood how important it was for public confidence to be maintained and inflation to be curbed, while gradually allowing the share price to fall, but soon reversed this policy.

The decree of 5 March 1720, which provided for the convertibility into shares valued at 9000 *livres*, put the bank in an unsustainable situation. It gave rise to two errors: one of principle and one of application.

The value of paper money did not increase as a result of the forced measurements. On the contrary, it was the beginning of its fall. The other mistake was to fix the price of the shares. Shares represent the capital of a company: in other words, a variable income security that can produce income or losses. Striving at all costs to recognise a

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[79] Starting from December, it had been established that the bank would not have handed over paper money for gold and silver and that taxes could only have been paid using banknotes (J. BUVAT, *Mémoire pour servir à l'histoire, ou journal de ce qui s'est passé de plus considérable pendant la Régence de feu Mgr. le duc d'Orléans*..., publié par M.E. CAMPARDON (Paris 1865), Bibliothèque nationale de France, (d'ora in poi BNF), *Département des manuscrits* (d'ora in poi Dpm mns), *MS. Français* 10282-10283.

[80] PARIS-DUVERNAY, *Examen du livre intitulé réflexions politiques sur les finances et le commerce*, vol. I, p. 324.

predetermined value means giving it the same nature as currency – so it makes no sense to recognise a dividend, which is paid due to production risk.

In the growing confusion of orders and counter-orders, it was only clear that currency was being pulverised, misery was growing and people were suffering [81].

All the solutions prepared were therefore useless [82].

On 21 May 1720, His Majesty was persuaded to change course.

In order to safeguard the interests of some 'privileged' creditors (hospitals, other important communities and minors), he imposed a programmed reduction in the value of monetary notes and shares, except for the payment of taxes [83].

Law tried to justify the measure by recalling the emergency measures that the seriousness of the times imposed, but nobody really believed his words. The monetary mutations that marked the period between 1719 and 1720 were the measures that our banker was most reproached for. We will never know exactly how things went, but panic spread.

The fact that the shares lost value could be considered an inherent blemish on the kind of business they represented, but by cutting the value of paper money [84], it looked like a theft. By undervaluing the shares, the boom came to an end, but by sacrificing paper money by decree, the public's trust in the System was betrayed.

Not even the subsequent revocation of the measure was enough to recover the favour of investors who, despite promises, were not reimbursed and remained dissatisfied, abandoned the financial circuit [85].

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[81] *Ibidem*.

[82] Between February and April 1720 more than 300 million coins were paid into the bank. It seems a lot, but it was only 1/5 of the coins in circulation.

[83] PARIS-DUVERNAY, *Examen du livre intitulé réflexions politiques sur les finances et le commerce*, cit., vol. II, p. 3.

[84] 21 May 1720.

[85] Between the beginning of June and mid-July 1720 the Regency tried to satisfy the holders of paper banknotes that were requesting their conversion into coins up to a maximum of 100 livres, but riots soon broke out, there were deaths on the streets and the Bank was closed.

In the markets, it is not the genius of a measure that should be praised, but its stability.

The decree of 21 May, on the contrary, upset the whole construction. The fire of the rebellion could be temporarily tamed, but it was certainly not extinguished.

Law, a brilliant man driven by a legitimate objective, had let himself be overwhelmed by presumption and arrogance; the credibility he had gained had turned into distrust, forcing him to abandon the market and resort to the force of law to make himself heard – unnecessarily. Law was sued for corruption and bankruptcy. His head was wanted.

For their part, Parisian investors – who had gone from wealth to poverty, from euphoria to despair – had staged the basic scheme of bursting and deflating that was typical of all financial bubbles: they had forgotten that price is an absolute concept but value is a relative concept. Five hundred thousand people lost the money they had invested, inflation sky-rocketed and the bank was finally closed. With the same tenacity with which banknotes had been printed, they were now trying to withdraw them and destroy them.

According to official estimates, more than 2.7 trillion *livres* was still in circulation, nearly 500 million of which had been issued without any control [86]. In order to appease souls, the regent granted everything to everyone: but the collapse on 15 September was inevitable.

In fact, the immediate withdrawal from circulation of all large-denomination banknotes was ordered, prohibiting payments in banknotes. Everything was now lost.

France found itself in the midst of an economic and social crisis that sent more than half a million people into poverty, while the Scottish financier, who barely escaped lynching, had to flee [87].

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[86] FORBONNAIS, *Recherches et considérations sur le finances de France*, cit.

[87] «Ainsi se termine le système du papier-monnaie, qui a enrichi un millier de mendiants et appauvri des centaines de milliers de gentlemen». Voltaire always used a critical tone for Philippe d'Orléans and his circle of followers, perhaps this is why it was reciprocated with his confinement – in 1716 – and almost one year in the Bastille, from 17 May 1717 to 14 April 1718. When at the end, the Regent offered him a pardon and a pension, Voltaire, in thanking him addressed this prayer to him: «I thank your Highness for continuing to look after my food, but I beg you to no longer look after my accommodation». (*Les vies de Voltaire: discours et représentations biographiques*, *XVIIIe-XXIe*

The System, built piece by piece by Law, had therefore collapsed: the dream vanished and the awakening was sudden and violent.

The bank put the company into administration, and the four Pâris brothers [88] returned to the city and liquidated it [89].

France returned to the ancient method of coins, and only 80 years later would banknotes begin to circulate again. Until the end, Law hoped to return to France, thanks to the support of Philippe d'Orléans, but the death of the duke put an end to all his hopes.

Law, in Jardin's disguise, arrived in Venice on 21 January 1721 and died there on 21 March 1729 [90]. Three months after his death, the French Council decided that neither Law nor his brother owed anything to the Indies Company [91].

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siècles textes réunis et présentés par C. CAVE-S. DAVIES, Oxford, Voltaire Foundation, 2008; S. LONGCHAMP, *Anecdotes sur la vie privée de Monsieur de Voltaire*, texte établi par F.S. EIGELDINGER, présenté et annoté par R. TROUSSON, Paris 2009). Threatening verses were also written on the walls of the city and even behind the door of the Regent's chamber who, rather upset, promised 100,000 shields to whoever discovered their author. The next day he found the scathing question whether he was offering paper money or coins, again in verse.

[88] The four Pâris brothers (Joseph, the most famous, Antoine, the oldest, Montagne and de Monmartel) were the sons of an innkeeper of the Dauphinate. One of these, having to help the Duke of Vendôme to carry supplies over the Alps, gained considerable benefits, whereas his brother Antoine was appointed director general of provisions for the Flanders Army. They were therefore entrusted with the *Chambre de visa* in 1715. Upon Law's arrival in France, they were the general tax contractors: they therefore engaged the Scot in a relentless struggle when the collection of taxes was taken from them; in the end they prevailed.

[89] BUVAT, *Mémoire pour servir à l'histoire, ou journal de ce qui s'est passé de plus considérable pendant la Régence*, BNF, Dpm mns, *MS. Français* 10283, cit.

[90] The man that had invented money had made a serious mistake: believing that he could increase the wealth of a country with the emission of paper money without limits. Cfr. M. ALLAIS, *La crise mondiale aujourd'hui*, Paris 1991.

[91] Voltaire wrote that the System of Law was that prodigious game that had made the whole nation play (GLEESON, *The Moneymaker*, cit., trad. it., p. 7).

OVERVIEW AND CONCLUSION

If we take a broad view of events, John Law's work was a success. And this was despite its disastrous epilogue.

At the time of Law's arrival in Paris, France was characterised by an incompetent bureaucratic system and uncertain rules.

Indeed, the *Roi Soleil* had always favoured military supremacy over economic dominance. As a result, the official economy was in a massive crisis, and the world of undeclared and illegal work was on the rise. The nobility had exploited this system for centuries to their advantage. Even Law, at least initially, in a certain way took advantage of the absence of certain rules to assert his projects on the chessboard of the international economy. However, what interests us most is the objective he pursued with his financial theories. The ultimate purpose of his financial revolution deserves reconsideration.

His daring construction of monetary flow offered a new idea of speculation and a reassessment of the role of credit, to the detriment of the idea of saving – and it assigned a leading role to France on the European scene after years of silence. John Law had what it took to be a dealer.

He understood the value of things before others did: this is why he knew how to win. He was capable of reassuring the market and calming investors. He knew how to assure them that their prize would be unique and once in a lifetime. Returns were secure: thus, scepticism turned into expectation, wait into desire, and doubt into certainty.

The liquidity crisis of the last years of Louis XIV's reign had risked taking the country – the leading European power – back to the bartering age. But the world was changing again: Law wanted to move away from the ghost of that apocalypse at all costs, and paper money was the safest and fastest way to do so.

To save itself, the State had to offer credible guarantees on the sustainability of its debts by keeping interest rates low – if it could not give certainty, it had to at least give the illusion of a relaunch of the real economy.

Was Law a gambler or not?

One hand was used to print paper money while the other hand was used to buy public debt with the money that had just been printed. After all, it is a well-known fact that finance does not have a historical memory. And you could bet on that.

Only a man who possessed the boundless ambition to think that, with his brilliance, he would be able to restart the economy of the biggest country in the world in the shortest time possible, could have enough ambition to sustain the grand monetary projects that Law proposed to the Regent in 1715.

Unfortunately, however, as Voltaire wrote: «c'était un médicin qui donnait une dose d'émetique trop forte à des malades. mais parce que on a trop pris d'un bon, droit-on y renoncer a jamais?» [1].

Law, with his three monopolies (a bank that issued paper money; an overseas commercial company; and a centre to collect indirect tax revenue, the *Ferme générale des impôts*) had built a complete economic system that was fundamentally sound, but four years were not enough to introduce paper money, set up the company and reduce the interest rate on the debt that was choking the agricultural economy.

France was overtaking England – which was a goal that Law did not try overly hard to hide – but too quickly, and without being prepared for it.

It was risky to believe that an almost endless supply of money was circulating and to restrict the process essentially to being between the *Banque* and the Mississippi Company, because it combined two incompatible financial models. By its very nature, trade is subject to unstable and fluctuating fortunes and can compromise a bank's earnings.

The level of risk could be lowered only by diversification. The problem, as in the present case, becomes greater much due to a strong aggregate component.

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[1] VOLTAIRE, *Observations M.M. Lass, Melon, Dutot*, in *Oeuvres completes de Voltaire, avec des notes et une notice historique sur la vie de Voltaire*, to.VI, Paris 1837, p. 624.

The issuance of banknotes had indeed favoured the circulation of payment methods in places other than the bank's branches, which stimulated trade and industry. But the creation of liquidity in the *Banque Générale*, at the rate of 75%[2] from the initial deposit, was not enough in any case to satisfy the greed of the monarchy to have money – especially when the monarchy was faced with the need for tax revenue that was not coming from production activities, which were for the most part carried out illegally.

Law, by granting loans only to certain sectors and favouring excessive demand for money, had exerted excessive – and, ultimately, unsustainable – pressure on the value of the banknotes, which had then been poorly managed by the government[3] with its rationing of supply and relentless increase in prices.

After just a few years, the *Banque* thus abandoned a prudent percentage of reserves and gave the go-ahead to issue a massive amount of banknotes. In clear contrast with what Law had always theorised. Between 1719 and 1720, over one billion *livres*' worth of paper money was issued. A true gamble[4]!

The issuance of this money was in fact backed by royal demand and by the support of tax revenue, of which the King was the first beneficiary; but the fatal error was just around the corner. And this became evident very quickly (October 1719), when Law let himself be convinced to consolidate the country's debt.

From a purely theoretical point of view, it may have even been possible to repay the country's public debt, but it was mistaken to claim that the country's wealth would increase by doubling – or even tripling – the value of the sums that the country was offloading.

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[2] One of the first experiments on the multiplier of paper money against deposits of metal coins was carried out with the *Banque Générale*.

[3] «It was when the bank began to be administered on behalf of the King that the banknotes were no longer paid in coins of the nominal value». And it was this that undermined the market's confidence. (BUSETTI, *John Law*, cit., p. 712).

[4] It was a good idea that his execution was badly planned, and without taking proper account of the reactionary tendencies of a dissolute court charged with envy of his person for having too soon brought forward the idea of a social equality unacceptable to the country. (BLANC, *Histoire de la Révolution Française*, HRF, *Origines et causes de la Révolution française*, *conclusion*, Livre1).

The collapse, like the boom, started with capital [5].

In the spring of 1720, the announcement was given of a 2% dividend – not much – if calculated on the shares' market value, but 40% on their nominal value. And as soon as the market absorbed 500,000 shares, the system came under attack from Law's opponents, who had been waiting to ambush him since his arrival in the country.

Faith in his work and in the man himself was called into question, as a senseless increase in shares would sooner or later lead to their depreciation.

The coalition of Law's enemies was prepared to make the whole thing explode. They were just waiting for the right opportunity. And Law – because he was a gambler, not because he was an economist – ought to have known and taken action accordingly. He needed to sacrifice something, and the share price was the lesser evil when compared to paper money.

The fact of the matter was that the purchasers of the shares, though betrayed, were speculators who freely shouldered the risk. Conversely, the holders of the banknotes had been forced to accept them. Legislative decrees – many of which had been issued by Law himself as Minister of Finance – rendered paper money a compulsory means of payment.

By ordering the repayment of public debt with the help of the law and forcing banknotes into circulation to only then cut their value, Law committed true and proper theft. A robbery for which the law guaranteed impunity.

Thus, while several merchant bankers made profits by exporting gold and exchange bills from France, the majority remained caught up in a spiral of debt.

Law was unable to quickly take action to fix a definite and favourable ratio for the conversion of gold to paper, and therefore the printing of banknotes was not subject to any timely constraints. And this was despite the fact that he had been hypothesising the exact opposite for some time.

All efforts he made to show his loyalty to France were in vain.

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[5] The first default was already hidden in the public debt to lower the bank's monopoly of the medium of exchange (banknotes) and to create purchasing power from nothing, without adequate reserves.

The *Banque Royale* disappeared, the Mississippi Company was mutilated and rendered powerless in 1721, and the tax and economic reforms did not survive their creator [6].

But the condemnation of Law also exposes deeper fears that economic speculation brings to light through the contradictions of fiduciary mercantilism.

The loss of the sense of proportions and the sense of limitation that is inherent in Law's strategy [7] seems to show two sides to same man – the banker and the gambler – with ambiguity and imbalances ascribable to his personality that appear difficult to comprehend [8].

In reality, the debacle should have been more reasonably ascribed to the excessive arrogance of the State. As much as Paris and the large French ports were able to count on financiers and evolved merchants, the general conditions of the national economy were disastrous and, in times of war, unable to uphold the issuance of such massive amounts of paper money.

On the contrary, England – whose design Law endeavoured to compete with – had a bank that was independent from political power and whose paper money was guaranteed by income from the country's leadership in world trade. The natural consequences of the limitless issuance of banknotes in France could therefore only lead to high inflation and the disaster that ensued.

The arrogance of the State was the legacy of too many centuries of absolute monarchy. When this came to be reflected in the State bank – the financier of capital gains – all limits were easily overstepped. As Zola writes: «Ça finit toujours mal, quand on trafique avec l'argent des autres» [9].

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[6] While his opponents ridiculed the naivety of those that had trusted him (MONTESQUIEU, *Lettres persanes*, Lettr. CXLII), launching an attack on the system as a factor of political instability.

[7] GAMBINO, *John Law banchiere e scrittore*, cit., p. 142.

[8] E et I. PEREIRE, *Enquéte du systeme des banques*, Paris 1866, p. 248.

[9] E. ZOLA, *L'argent*, Paris 1891, p. 53.

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INDEX OF NAMES

A

Aftalion F.: 15n
Agnati A.: 40n
Ainsworth W.H.: 15n
Allais M.: 90n
Albertone M.: 15n
Andréadés A.: 21n
Angell J.W.: 32n
Antonietti G.: 15n
Arnon A.: 12n
Asgill J.: 22n

B

Bagehot W.: 33n; 56n
Baker K.M.: 18n
Beach F.H.: 41n
Béaur G.: 14n
Bentemessek N.: 21n; 22n
Berdell J.: 22n; 25n; 26n; 28n
Bien D.: 18n
Birocchi I.: 40n
Black J.: 61n
Blackley W.: 45n
Blanc L.: 54n; 93n
Bluche F.: 64n; 65n
Bonney M.: 5n; 60n
Bonney R.: 5n; 37n; 60n
Bouchard L.: 60n
Boucher P.: 65n
Bourgeois E.: 61n
Boyer-Xambeau M.T.: 14n
Bravi M.: 8n
Braudel F.: 14n
Brezis E.S.: 15n
Briscoe J.: 22n
Broz J.L.: 21n
Buat N.: 5n; 14n; 59n; 68n; 70n
Buchan J.: 13n; 15n; 16n; 41n; 49n
Bulferetti L.: 40n
Burckhardt C. J.: 65n
Busetti S.M.: 58n; 68n; 93n
Buvat J.: 87n; 90n

C

Campardon M.E.: 87n
Campbell A.: 34; 34n
Campbell J.: 34n; 50n
Canchellor E.: 13 n
Cantillon R.: 14n; 20n; 26n; 30n; 33n
Carlos II Habsburg (King of Spain): 38n; 39n
Carmona M.: 65n
Carnino C.:65n
Carrithers D.: 8n
Carron C.G.: 46n
Cartelier J.: 14n; 15n
Carutti D.: 37 n; 38n; 58n
Castronovo V.: 46n
Cave C.: 90n
Cavion P.: 40n
Cesa M.: 61n
Cesarano F.: 47n
Chais G.B.: 39n
Chamberlen H.: 34n
Chamillart M.: 35; 57; 57n; 68; 68n
Chateauneuf M.A.: 41n
Checkland S.C.: 28n
Chetwynd J.: 45
Clapham J.: 21n
Clarcks C.: 78n
Clément P.: 66n
Cochut P.A.: 2n; 4n
Cognasso F.: 38n

Colbert J.B.: 8n; 65; 65n; 66n; 70; 70n; 72n; 81; 82n; 83n
Congdon T.: 32n
Cornette J.: 66n
Costabile L.: 6n
Cova A.: 19n; 38n; 72n
Crouzet F.H.: 15n

D

Davies S.: 90n
D'Alambert J.B.: 39n
D'Avenel G.: 65n
Dameri A.: 45n
Davico R.: 47n
Davidson D.: 21n
De Andreau J.: 14n
de Boyer des Roches J.: 12n; 33n
De Maddalena A.: 20n; 21n
De Medici M.: 65n
de rouvroy L., duc de: 58n; 63n; 84n
Desmedt L.: 21n
De Saint-Disdier L.: 70n
De Saint-Priest J.-Y.: 70n
Dessert D.: 15n; 19n; 57; 61n; 66n
di Nomaglio G. M.: 40n
Digwall J.: 29n
D'Orléans P.: 68n; 72n; 90n
Donaudi F.: 1n; 50n; 51n
Du Plessis A.-J., Duke of Richelieu: 65; 65n; 67n
Du Mont J.: 70n
Dupilet A.: 68n
Dupré de Saint-Maur N.F.: 23n
Dusaulx J.: 1n
Dutot C.H.: 3n; 74n; 92n
Duverger de Forbonnais F.V.: 72n

E

Edvinsson R.: 21n
Einaudi L.: 40n
Elliott J.H.: 38n
Emerson R.: 34n
Espinasse F.: 15n

F

Fachan I.M.: 53n
Fama E.F.: 12n
Faure E.: 2n; 3n; 13n; 14n; 15n; 19n
Felice D.: 7n
Felix J.: 55n
Felloni G.: 40n
Fiske F.S.: 2n
Foà B.: 19n
Forbonnais F.: 72n; 73n; 89n
Fossati A.: 47n
Franchini I.: 20n
Frey L.: 38n
Frey M.: 38n
Frigo D.: 38n

G

Galavielle J.M.: 14n; 19n
Galbraith J.K.: 13n
Galgano F.: 82n
Galiani F.: 3n; 14n; 47n
Galli A.M.: 74n
Galli della Loggia G.: 46n
Gallinati F.G.: 47n
Gambino A.: 19n; 95n
Garagno A.: 46; 47n
Garber P.M.: 1n
Garcia Gonzáles F.: 38n
Gialdroni S.: 81n
Gillard L.: 21n; 51n
Giraud M.: 78n
Girgenti A.: 48n
Gleeson J.: 5n; 41n; 86n; 90n
Godolphin S.: 28
Goetzmann W.N.: 78n
Graham A.: 55n
Greenfield J.: 15n
Grenier J.-Y.:14n
Groenewegen P.: 22n
Gropello G.B.: 46; 46n; 47n
Grossman R.S.: 21n

H

Hanotaux G.: 65n
Harley R.: 17n
Harsin P.: 3n; 13n; 35n; 56n; 57n; 60n; 63n; 68n; 69n; 70n; 71n; 74n; 78n; 82n
Haudrère Ph.: 2n, 81n
Haut Champ B.M. (du): 73n
Heathcote T.: 34n
Heckscher E.F.: 21n
Helmont H.F.: 45n
Helvétius C.-A.: 11n

Higgs H.: 26n
Hoffman P.T.: 5; 60n
Holmes G.: 38n
Hoselitz B.: 29n
Hume D.: 3n; 12n; 14n
Hurt J.J.: 18n

I

Ingberman D.B.: 18n
Ieva F.: 39n
Iotti L.: 34n

J

Jacobson T.: 21n
Jacquart J.: 66n
Jesurum G.: 12n
Jevons W.S.: 29n

K

Kaeppelin P.: 78n
Kaiser T.E.: 2n; 5n; 19n
Kamen H.: 38n
Keynes J.M.: 3n; 14n; 74n
Kurz H.D.: 12n
Kindleberger K.: 6; 6n; 7n

L

La Rocca L.: 39n
Labrousse E.: 14n
Lande L.: 32n
Larrère C.: 8n
Lavaselli O.: 40n
Law J.: 1; 1n; 2; 2n; 3; 3n; 4; 4n; 5n; 6; 6n; 7n; 8n; 9; 11; 12n; 13; 13n; 14; 14n; 15; 15n; 16; 16n; 17; 17n; 18; 18n; 19; 19n; 20; 20n; 22; 22n; 23; 23n; 24; 25; 25n; 26; 26n; 27; 27n; 28; 29n; 30; 30n; 31; 32; 32n; 33; 33n; 34; 34n; 35; 35n; 38; 41; 41n; 42; 42n; 43; 43n; 44; 44n; 45; 45n; 47; 47n; 48; 48n; 49; 49n; 50; 50n; 51; 51n; 52; 52n; 53; 53n; 54; 54n; 55; 56; 56n; 57; 58; 58n; 59; 59n; 60; 61; 61n; 62; 62n; 63; 63n; 68; 68n; 69; 69n; 70; 70n; 71; 71n; 72; 72n; 73; 73n; 74; 74n; 75; 76, 76n; 77; 77n; 78; 78n; 79; 79n; 80; 80n; 81; 81n; 82; 82n; 83; 83n; 84; 84n; 85; 85n; 86; 86n; 87; 88; 89; 90; 90n; 91; 92; 93; 93n; 94; 95; 95n
Le Bouëdec G.: 2n; 81n
Legay M.-L.: 66n
Leopold I Habsburg: 38n
Levy C.F.: 55n; 61n
Locke J.: 35n
Lombardi G.: 48n
Longhitano V.: 15n; 28n; 75n; 81n
Louis XIV: 3; 4n; 5n; 7n; 8; 8n; 14n; 17n; 18n; 38; 38n; 41n; 51; 55n; 57n; 58n; 59; 59n; 60; 60n; 63n; 64n; 65n; 66n; 68n; 69; 69n; 70; 70n; 71n; 74n; 76n; 77; 82n; 91
Lovera G.: 40n
Lugli L.: 23n
Lüthy H.: 13n; 57n; 78n
Lynn J.A.: 38n; 53n

M

MacLachlan A.D.: 38n
Mackay C.: 1n; 13n; 44n; 82n
Magrì S.: 16n
Manno A.: 46n; 47n
Marion M.: 67n
Marmont du Hautchamp B.: 16n; 17n; 41n
Martorana S.: 40n
Mattone A.: 40n
McKay D.: 45n
Méchoulan H.: 66n
Melano G.: 40n
Menger C.: 29n
Menudo J.M.: 26n
Merlotti A.: 47n
Mezin L.: 2n; 81n
Minard P.: 66n
Mongiano E.: 39n
Montgomery Hyde H.: 49; 68n
Montesquieu C.L.: 7n; 8n; 13n
Morellet: 11n
Moore J.: 8n
Mosher M.: 8n
Mousnier L.: 14n; 65n
Murgia G.: 38n
Murray Graham J.: 29n
Murphy A.E.: 1n; 2n; 6n; 8n; 14n; 15n; 19n; 20n; 22n; 26n; 28; 30n; 33n; 34n; 41n; 42n; 55; 58n; 74n; 81n; 83n
Musetescu R.: 14n

N
Neal L.: 6n; 21n; 35n
Nicholson G.: 39n
Nicholson J.S.: 51n; 80n
Nixon R.: 64n
Norman J.: 12n

O
O'Brien: 42n; 45n

P
Palazzi A.: 2n
Palmarocchi R.: 38n
Parini Vincenti S.: 2n; 14n
Paroletti M.:46n
Parri A.: 45n
Pastré O.: 66n
Pene Vidari G.S.: 40; 47n
Pénicaut E.: 68n
Pereire E.: 95n
Pereire I.: 95n
Perrero A.: 42n; 45n; 48n; 49n; 52n; 53
Petrini R.: 3n; 14n
Phillipson N.: 12n
Piola Caselli F.: 14n
Postel-Vinay G.: 5n; 60n
Pozzati A.: 45n
Prato G.: 40n; 42n; 43; 43n; 49n; 53n; 55

Q
Quazza R.: 39n
Quesnay F.: 11n
Quinn S.F.: 21n

R
Rahe P.: 8n
Rice M.C.: 13n
Rist C.: 12n; 22n
Roberds W.: 21n
Robertson J.: 22n; 34n
Rocci F.: 38n
Root H.L.: 18n
Rosenthal J.-L.: 5n; 60n
Roseveare H.: 56n
Rothkrug L.: 71n
Rousseau A.: 21n
Rouwenhors K.G.: 78n
Rubini D.: 34n

S
Sagnac Ph.: 73n
Saint-Simon L.: 41n; 57n; 58; 58n; 63n; 80n; 84n
Sanz V.L.: 38n
Sarmant T.: 60n; 66n
Savary J.: 1n
Schumpeter J.A.: 12n
Schabas M.: 14n
Seligman A.: 57n
Shovlin J.: 3n; 15n; 20n
Simms B.: 62n
Simpson Ross I.: 14n
Smith A.: 3n; 11; 11n; 12; 12n; 13n; 14n; 29n;
Smith C.: 12n
Soffietti I.: 39n; 40n
Solnon J.F.:64n
Sonnino P.: 65n; 70n
Spang R.: 15n
Stellardi V.E.: 38n
Stoll M.: 5n; 60n; 66n
Storrs C.: 39n
Stumpo E.: 47n
Sylos Labini P.: 12n
Symcox G.: 38n

T
Tarello G.: 40n
Thiers A.: 2n; 17n; 18n
Trintzius R.: 35n
Thiveaud E.: 57n
Thiveaud J.-M.: 73n
Trivero A.: 50n
Truchi G.B.:46n
Turgot A.R.J.: 11n

V
Vast H.: 70n
Velde F.: 2n; 15n; 52n; 59n
Viora M.: 38n; 40n
Voltaire: 89n; 90n; 92; 92n
Vuitry A.: 14n

W
Waldenström D.: 21n
Wasserman M.J.: 41n
Wennerlind C.: 8n; 14n
Wiesner L.: 61n

Willimas B.: 61n
Wilson E.: 16n; 17n
Winston Glynn A.W.: 53n
Wood J.P.: 16n, 44n, 73n, 84n, 85n

Z

Zambelli B.V.: 69n; 70n
Zanini A.: 12n
Zola E.: 95n